



Macedonia Competitiveness Activity

Quarterly Report **October 2005 – December 2005**

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MACEDONIA COMPETITIVENESS ACTIVITY

Quarterly Report: October – December 2005

Executive Summary

NECC: Third Annual National Competitiveness Summit focused on recommendations for future economic development of Macedonia and broadening National Entrepreneurship and Competitiveness Council (NECC) membership. The first Macedonian Competitiveness Report was published to serve as platform for NECC activities.

PED: More than 5,000 people attended the Third Annual Street Festival organized by the Municipality of Karpos with support from MCA and under the auspices of the NECC. Visitors had a chance to celebrate and sample some of Macedonia's most competitive products and services. Some 36 exhibitors offered cheese, wine, meat, traditional ajvar, mushrooms, honey, tourism, beverage, artisans hand-made jewelry, pottery, and textiles. The National Competitiveness Attitudes and Awareness Survey showed increased awareness of MCA and NECC as well as the private sector's role in determining how and where Macedonian firms should compete. Increasing numbers are researching EU or US product or quality standards as a result of learning about competitiveness.

Lamb and Cheese: Managers of two newly formed cooperatives are being trained to successfully implement the Greek Lamb Export Market project. USAID MCA is providing technical assistance to farmers' associations in negotiating export contracts with Greek prospect buyers. Cheese exports continued to be strong, bringing the year's total exports to more than \$900,000 in value and about 140 tons in volume.

Tourism: Macedonia's visibility as an attractive tourist destination is being extolled through articles in industry and consumer publications in Italy, Serbia, Croatia and the UK. Macedonia was featured in a two-page color spread in the November issue of the UK's *International Travel and Tourism News (ITTN)* with circulation of 60,000 travel professionals in the UK.

IT: Eleven production, pre- and post-production firms are forming a new company to develop a "digital media/film city," planned to be a one-stop shop for film companies and others needing such services. Skopje joined several other global digital metropolises in becoming a digital sister city with San Francisco. MASIT continued to aggressively promote itself as a leading representative of the IT sector in Macedonia and now deserves label "the core of the IT cluster". MASIT led and successfully implemented several high-level initiatives, such the formation of the IT Experts Committee, and initiated cooperation with other associations such as MADE and the cooperation with the Bulgarian ICT cluster.

Wine: Macedonian wines received strong publicity in key markets of interest. UK and Austrian wine writers visited Macedonian wineries and published favorable articles about Macedonian wine. Macedonia was also featured in a German specialty wine magazine. The members of the Macedonia Fine Wines Export Group formed an export consortium for the UK market.

Apparel: Apparel cluster companies can increase their productivity by 40 percent by introducing changes in the flow of operations and without any investment in new equipment. The Progressive Bundle System was widely accepted by cluster companies after a demonstration of the results from apparel companies that have the prototype line already installed.

Component A: Institutions: National Entrepreneurship & Competitiveness Council (NECC)

NECC Operations and Sustainability

The National Entrepreneurship and Competitiveness Council (NECC) held its Third Annual Competitiveness Summit on 7 October 2005 (**milestone**). The event was attended by more than 200 cluster members, business people, government and civil society representatives, representatives of the diplomatic community and donors. Invitations to this year's Summit were sent to smaller, more targeted audience because the objective was to discuss NECC's recommendations and direction on the future development of Macedonian economy and provide long-term conditions for further building of Macedonian competitiveness. Featured speakers included the new US Ambassador Gillian Milovanovic and the European Community delegation head Donato Chiarini. NECC member Vladimir Pesevski presented changes in the NECC's mission and approach, and staff member Dejan Janevski presented findings of the World Economic Forum research results on Macedonian competitiveness. All five clusters presented their yearly achievements along with the future plans. At the Summit, NECC invited other associations and chambers of commerce to join the Council and actively participate and strengthen the public/private dialogue. During the Conference, the NECC web site, a donation from the private sector (UNET), was also promoted. The Summit was followed by the traditional Street Event, which this year was organized in coordination with the municipality of Karpos. (Please see ***Component B: Consensus Building, Public Education and National Dialogue*** for details on the Street Event.)

During this quarter the NECC Advisory Group Management Board began implementing changes identified at the Summit. In regards to broadening the membership, the Advisory Group contacted proposed new members, all of whom showed interest in joining the NECC. These include presidents of the Chamber of Commerce of Macedonia, the Association of Chambers of Commerce, the Chamber of Commerce of Western Macedonia and the European Business Association. The Advisory Group prepared memorandums of understanding that are to be signed at the next full assembly of the Council planned for January 2006.

Other key NECC activities centered on achieving sustainability and financial stability of the Advisory Group, which is the support organization for the Council. NECC members Minco Jordanov and Vladimir Pesevski held initial meetings with interested potential donors (USAID, Dutch, Norwegian and Swiss Embassies) to ensure funds for NECC future operations. The type of assistance offered by the donors varied depending on the criteria for allocation of available funds. Since the requested amount was not a substantial sum and in the interest of time, the Swiss Ambassador proposed a donor meeting after the New Year to look at ways to support the NECC and minimize bureaucratic procedures.

Additionally, the Ministry of Economy confirmed its commitment to provide office space for the Advisory Group staff within the premises of the Sector for Entrepreneurship. The

equipment for the offices would be donated by MCA. Furthermore, the NECC Advisory Group applied to the Civil Society Strengthening project for a grant to continue supporting cluster development after MCA closes. The NECC working group on clusters would spearhead this work. MCA also recommended support of the Council to USAID Human and Institutional Development Project. Decisions by both projects are pending.

Cooperation with the World Economic Forum has continued with the signing of the agreement for 2006. Preparations for executing the Executive Opinion Survey are under way.

Competitiveness Report Milestones

The findings of the World Economic Forums' Global Competitiveness Report (GCR) were presented at the Third Annual National Competitiveness Summit in early October. As agreed by the members, this was the first step towards publishing Macedonia's first National Competitiveness Report as the GCR was to provide a framework for the Macedonian report. Later that month a draft of the National Competitiveness Report, an analysis of the competitiveness of the Macedonian economy and recommendations were presented at a round table of participants from the public and private sectors as well as representatives of the relevant donor projects. Prior to publishing the final version of the report, it was reviewed by Professor Vanco Uzunov, an expert on competitiveness at the Faculty of Law and NECC member. The report was made public during an NECC meeting held in the Government Building on 16 December 2005 (**milestone**). The meeting was opened by the Prime Minister and was also attended by the President of the Parliament and Minister of Education, along with a good number of news media representatives. Professor Uzunov presented the report, and Georgi Miladinov of Kimico apparel manufacturer and NECC member, presented recommendations from the report that define the basis and platform for future NECC activities (***please refer to Appendix 1 for the full report***). The identified priorities are market efficiency, technological readiness and higher education and training. Following the meeting, the Management Board decided that a draft annual action plan for year 2006 would be prepared by 21 December and circulated to all members for revision.

The competitiveness report was published in Macedonian, Albanian and English. It is available on the NECC's website – www.nspk.org.mk

FDI/Cluster Cooperation

By request of a former NECC member, MCA asked USAID Human and Institutional Development Project to support staff and management training for the Academia Italiana School of Design in Strumica. This initiative was strongly supported by the NECC and the Apparel Cluster Leadership Council because it addresses the need for specialized education and training necessary for new technologies to be introduced. The school is a joint investment that includes foreign investors.

Other 2005 milestones

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- Establishment of Advisory Group - reported in January-March 2005 Report
- Hiring of Executive Director - reported in April-June 2005 Report
- Study tour - reported in April-June 2005 Report

Component B: Consensus Building, Public Education and National Dialogue

National Competitiveness Attitudes and Awareness Assessment

The project awareness assessment (**milestone**) was conducted during the third week of October, following the Third Annual Summit and Street Event. To provide continuity and accuracy in the results, MCA used the same questionnaire and methodology of sampling the respondents as last year. All parameters used in the 2004 survey (750 respondents: 500 randomly selected employed residents and 250 business representatives, of which 50 were from an MCA client list) were followed as well. The focus of this survey is to measure attitude and behavior change, an indicator that reflects changes in awareness, understanding, trust and self-reported behavior change. Following are some results of significance:

Attitude/awareness

- The percentage of business respondents who believe the private sector should take the lead on deciding on how and where Macedonian business should compete has risen to 59% in 2005 (vs. 56% in 2004). Fewer residents in general believe the private sector should take that lead (44% vs. 51% in 2004).
- 100% of business respondents are aware of the competitiveness concept.
- 49% of business respondents had heard of USAID/MCA (vs. 47% in 2004).
- 45% of business respondents had heard of the National Entrepreneurship and Competitiveness Council (vs. 42% in 2004).

Behavior Change

92.3% of business respondents reported undertaking new business activities reflecting behavior change as a result of something they heard or learned about competitiveness in the past year. The key behavior changes they reported are:

- 67.9 % of those respondents modified an existing product (vs. 54.9% in 2004)
- 71.2% participated in additional training themselves or sent an employee (vs. 66.8% in 2004)
- 70.8% invested in market research in the past year because of something they had learned about competitiveness (vs. 61% 2004).
- 65.6% developed a new product because of something they had learned about competitiveness (vs. 55.9% in 2004).
- 72.8% researched EU or US product or quality standards (vs. 67.3% in 2004).

Trust

Trust among business respondents has increased to 37% (vs. 34% in 2004) while trust among residents in general has further declined (20 percent vs. 25% in 2004).

Media Relations

Public Education Department (PED) continued to foster strong relationships with the news media, especially with individual journalists as they change jobs. That has helped establish/reinforce good relationships with other media outlets. The outcome has

been a high rate of acceptance of stories pitched by PED and frequent requests for ideas from the journalists. PED routinely offers positive/success stories from the clusters and individual cluster members.

News Releases

PED continued to seek media coverage to support project objectives as well as respond to media inquiries. News releases (8), media advisories (6), articles and interviews were placed with regional and national television, print media and specialty business publications. PED placements for this quarter totaled 55 for print, 32 for television and 12 for radio.

On 1 October 2005, PED issued a press release to announce the results and launch of the World Economic Forum survey and Global Competitiveness Report. The release was shaped in a way to showcase Macedonia's ranking in relation to the global economies subject to this report. Of the 117 countries surveyed, according to the Growth Competitiveness Index, Macedonia is ranked on the 85th place, while according to Business Competitiveness Index, of the 116 countries ranked, Macedonia is on the 83rd. The release resulted in 4 print articles and 2 TV reports.

Special Events Support

Wine Writers Visit – PED's Makedonka Dimitrova arranged media coverage of two UK wine writers visiting Macedonia. This was part of a campaign to raise awareness of the Macedonian Fine Wines Export Group and the potential for export of Macedonian bottled wines. Given the recent formation of the Export Group, the journalists, especially those covering the wine industry, were excited to interview the foreign journalists and make headlines out of their recommendations for the future growth of the Macedonian wine industry. A group interview at Popov Winery was attended by representatives of 6 media outlets, resulting in 5 written articles and 3 TV broadcasts.

Eugene Zenoff Presentation on Production Improvements – In support of the Apparel Cluster initiative on Production Improvements with 4 pilot companies, Margareta Lipkovska sent a media advisory and press release to national and local media outlets since the presentation took place at Deltatex in Kocani. Eugene Zenoff, apparel industry production expert, explained how companies could save money with no new investment merely by changing their production system. The subject raised high interest among media; 10 journalists attended the event. Since the majority of these journalists work for two and sometimes three media outlets, the result was 5 TV broadcasts, 6 print articles, 2 radio broadcasts and 1 newswire.

Digital Sister Cities - MADE Initiative - PED's Makedonka Dimitrova worked with MADE and the City of Skopje to organize the Digital Sister City video conference in late November. PED acted as a focal point between the City of San Francisco, MADE and City of Skopje. The event was an excellent capacity building exercise for the City of Skopje's Communications Department in terms of designing and following timelines for event organization, designing invitations, preparation of talking points/speeches, press

materials and press kits. Prior to the event, a media advisory was released and web site announcement was published. The overall PR campaign and the follow up press release resulted in 8 print articles, of which 3 were in specialized media outlets, 3 TV broadcasts and 2 radio broadcast.

Textile Trade Association (TTA) - Apparel Cluster merge – As part of its sustainability strategy, the Apparel Cluster held Annual Assembly in cooperation with the TTA where they announced the incorporation of their activities. In support of this event, Margareta Lipkovska issued a media advisory, coordinated media representatives at the meeting and sent a follow up news release to national media outlets. Eight journalists attended the event, which resulted in 3 TV broadcasts (A1, Kanal 5 and Telma TV), 5 print articles (*Biznis, Utrinski Vesnik, Vreme, Dnevnik, Makedonija Denes*), 1 radio broadcast and 1 newswire (MIA). Journalists of electronic media outlets used the opportunity to do individual interviews with number of cluster representatives on the future operation of this joint organization, as well as on the impact certain new government regulations.

Axis-Avid-Softimage Certified Training Centre Graduation Ceremony – MCA made a small grant to the training center for promotion and marketing. To further assist this effort, PED's Dimitrova worked closely with the training center to organize a PR event for the graduation ceremony of the first set of 23 students. Richard Goldman, USAID Mission Director, handed out the certificates to the students. In support of the training centre and the future growth of the digital media industry in Macedonia, a letter from Macedonian President Branko Crvenkovski was read at the ceremony. An address by the dean of the Mechanical Faculty in Skopje also added value to the ceremony. A press release was released on the day of the ceremony. The PR activities resulted in 2 TV features, 6 written articles in the local media and one interview in the 'TEA' weekly magazine.

Promotion of the first National Competitiveness Report – PED supported promotion of the first Macedonian National Competitiveness Report with a wide range of activities. Margareta Lipkovska prepared formal invitations to the round table discussion of the report and coordinated the printing of the report in three languages (Macedonian, Albanian and English). For the event, hosted by NECC, she issued a media advisory, coordinated media representatives at the meeting, and sent a follow up news release. This resulted in journalists from 15 media outlets covering the event. Coverage included 7 TV reports – MTV, MTV - Turkish program, Kanal 5, TV ERA, TV Telma, TV Sitel and ALSAT; 7 print articles – *Birlik, Makedonija Denes, Dnevnik, Utrinski Vesnik, Vecer, Nova Makedonija and Biznis*; 2 weeklies – *Macedonian Sun and Kapital*; 1 newswire – MIA and 1 radio program – BBC. The recommendations section triggered the most media interest. Ms. Lipkovska arranged an interview with Professor Vanco Uzunov for *Biznis* daily that was to be published in early January 2006.

Publications

USAID MCA discontinued the printing of its "*MCA Direct*" and re-allocated the funds to upgrade its web site. MCA believes this is a better use of the limited resources

remaining to promote the project's successes. In lieu of a traditional holiday greeting card, Makedonka Dimitrova's coupled her creative initiative with the department's skill and knowledge to design an innovative calendar/holidays greeting in English and in Macedonian. Each month included a "teaser" of information on individual cluster activities and successful MCA grants and directed attention to MCA's web site where the full success stories are to be posted. Given the soon closure of MCA, the calendar will keep information on MCA and MCA related traditional events during the whole year.

Web Site

PED has worked closely with the cluster advisors to identify documents and reports that will be published on the web site as the MCA support to clusters ends. The web site is to serve as a guide/one-stop shop for present and future cluster members, providing information on the cluster's activities, market research, relevant initiatives and similar activities. MCA web site is projected to be thoroughly updated by May 2006.

Special Projects

Third Annual National Summit on Competitiveness – PED's Margareta Lipkovska Atanasov led the department's support of this year's Summit again. The corporate graphic look for the Summit was established in 2004 and used again.

PED handled both organizational support and publicity. A pre-Summit media advisory and a media release were sent to approximately 80 national and local media outlets. Some 20 journalists attended all presentations of the Summit. The Summit was followed by a brief press conference where journalists pose questions to NECC representatives, Minco Jordanov, Deputy PM; Vladimir Icokaev, TTA President; and Vladimir Pesevski, SEAF Director, all members of NECC Advisory Group Management Board. The Summit and press conference generated substantial positive coverage (10 print articles, nine television reports and four radio reports, one newswire).

Outcomes:

USAID MCA again met its target at the Third Annual National Summit on Competitiveness. It was attended by representatives of a broad spectrum of industries, along with the diplomatic corps and international donor organizations.

The general theme of this year's Summit was "From Goals to Results," and it:

- Introduced the changes in the NECC's mission and approach – from a forum for public-private dialogue into a more pro-active partner to the government;
- Reinforced the need for stronger public-private dialogue for the purpose of more efficient building of Macedonia's competitiveness;
- Reinforced the need that the private sector take the lead in developing strategies for economic growth;

Invited for membership the Chambers of Commerce, other business associations and cluster organizations;

- Reinforced the need of regional cooperation in support of faster economic growth and integration within the EU;
- Reported on clusters' achievements;

- Conveyed the message to the general public that increased competitiveness and prosperity can be achieved only by joint efforts and shared vision of where Macedonia is heading.

Sustainable Street Event – Hard work, good weather and lots of vendors resulted in a successful Third Annual Street Festival on Sunday, 16 October, in Leptokarija. MCA's Marga Lipkovska Atanasov worked hard with municipality staff to organize the festival. Through Ms. Lipkovska's efforts, the festival is now sustainable as the Municipality of Karpos has agreed to continue the tradition.

In addition to the sponsorship reported on the July – September 2005 Quarterly Report, Ms. Lipkovska and NECC adviser Dejan Janevski approached Edmond Krliu, owner of PROTECT M company and NECC Member, who donated 1.000 Euros. The Municipality staff also managed to secure 20,000 MKD as sponsorship from TINEX Markets, as well as substantial in kind sponsorship from Skopska Pivara, the revenue of which was to be used for covering other expenses.

As part of the promotional campaign, Ms. Lipkovska approached media companies for free advertising of the Street Event announcement. MEDIA PRINT Group provided 4 announcements in their *Dnevnik and Utrinski Vesnik*. *Vreme* also provided 4 announcements.

The Event

The Event took place on the parking lot in front of the Leptokarija shopping and residential area on 16 October. Twenty wooden stands lines both sides of the parking lot, providing access from all sides. Thirty six vendors and exhibitors took part; they were mostly MCA supported cluster members and other vendors that participated at the previous two events, as well as companies that are based in the Municipality of Karpos. Some vendors shared stands based on the kind of products/services they sell – wine with cheese and artisans with tourism. The beverage, honey and traditional ajvar producers had individual stands. A separate stand was provided for the sponsors – PROTECT M and Reprint – for promotion of their products and services. The municipality also had its own stand where citizens living there could be informed about the services the Municipality offers.

Since the event coincided with the World Day of Food, the Macedonian Institute for Health Protection provided free services – weighting, blood pressure and blood sugar checking, as well as evaluation of health risk from heart diseases.

To introduce their products better and let visitors get acquainted with their quality better, all the food vendors had provided well decorated sampling dishes that everyone enjoyed. Visitors also enjoyed the tasting of some of the best Macedonian wines. To make the event more fun and help to increase the vendors' sales, visitors who made purchases were eligible for a prize drawing. All vendors generously donated products for the drawings.

Karpos organized a very rich entertainment program for all ages. For the youngsters, there were the ethno group Monistra, the folk group “Cvetan Dimov”, ensemble of international dances “Zunica” and participants at the Children’s Eurovision song contest in Macedonia, Vojdan and Ivana. Older visitors enjoyed Goran and Rosana, folk singers, while teenagers preferred Lambe Alabakovski, Natasa Mijatovic and Aleksandra Pileva. Danica Martinovska, the protocol officer at the municipality, worked with Ms. Lipkovska to write the scenario of the whole event that Dragan Spasov - Dac and Natasa Mijatovic used to ‘run the show’.

A separate Children’s corner was set up with easels where local elementary school students drew and painted around the theme of a “clean and organized school ground”. The best drawings were awarded by boxes of products donated by Vitaminka food processing company that participated at the event.

Media Coverage

On 12 September, Municipality of Karpos announced the Street Event, noting that Karpos was taking over the annual event from MCA. Journalists from MIA, *Vreme*, *Nova Makedonija*, *Utrinski Vesnik*, *Dnevnik*, *Vecer*, TV Sitel and Macedonian Radio attended. The outcome was 6 print articles, 1 TV broadcast and 1 radio report.

On September 14, Macedonian TV made a brief report for their Skopje Program, which included statements from Evantija Stojanovska from the municipality and Ms. Lipkovska. The weekend issue of *Utrinski Vesnik* published an interview with Danijela Simonovska, representative of the recently established Designers’ Association, featuring the Street Event and their unconventional participation – instead of a fashion show, they had mannequins dressed in clothing designed by individual members of the association set up in a café in Leptokarija.

The media coverage of the actual event on 16-17 September was very positive and very rich. All national and Skopje local televisions covered the event. All reports contained statements from both vendors and visitors. A general conclusion of the coverage is that visitors were happy with the diversity of products offered by all vendors, especially with the vendors that were unknown to them, or the new products, satisfied with the promotional prices, and pleased to have such a promotional as well as entertaining event that enriches their daily life. Total number of reports is: 7 TV broadcasts, 6 print articles (dailies), 2 weeklies.

Follow up survey

Shortly after the event, the Municipality of Karpos sent a thank you letter along with five-question survey form to all participants. A summary of the responses provides the municipality solid ground for continuing the tradition of organizing the event.

Overall respondents were pleased with the event’s organization, the number of visitors and their sales for the day. Some included comments:

“I would like to extend my special gratitude to the organizer of this festival. The fact that the festival can continue to live has been proved. You are confirming that,” said Tome Filipov of Tomcaki Company.

Representatives of the Honey Producers Association wish *“the event to last whole day or two days.”*

Todor Petrov of Viprov said, *“Everything is excellent! Continue in the same way with more Municipalities”*.

Diaspora Cooperation

MCA PED’s Diaspora outreach continued to work with the Institute for Respiratory Diseases of Children and the Macedonian Patriotic Organization (MPO). MPO is expected to donate a Pulse Oxymeter Unit to the institute in following quarter. MCA's PED has been instrumental in helping the two organizations communicate.

Component C: Demand Driven Selection of Clusters

Cluster Selection – Procedures and Criteria, Cluster Leadership Councils and Selection Process

In November 2005 the MCA team commenced preparations for the final phase of cluster assistance and planning for their future sustainability. Starting from January 2006, MCA will scale down activities and dedicated staff members to the five supported clusters. The preparations entailed organizing a planning session with the purpose of identifying long- and short-term activities that the clusters would implement receiving reduced or no MCA support. The members of the Cluster Leadership Councils participated in the planning session and identified 2006 initiatives as well as actions for cluster sustainability.

Furthermore, the cluster advisors tentatively scheduled cluster “close out” meetings and began preparing the content of the meeting as well as the materials to be distributed as resource for important information that would help cluster members continue working on initiated activities.

Lamb and Cheese (LnC) Cluster

Managers of two newly established cooperatives are being trained to successfully implement the Greek Lamb Export Market project. Cheese exports continued to be strong, bringing the year’s total exports to more than \$900,000 in value and about 140 tons in volume.

Initiative Results

Initiative No.01/05 - Greek Test Market Program. Two recently established farmer for-profit entities held their founding assemblies in November 2005. A key agenda item was the selection of professional managers, their first milestone in the Greek Test Market activity. Ljulzim Fezulahu from the Western Macedonian Sheep Breeders Association and Aleksandar Chuchurski from the Eastern Macedonian Sheep Breeders Association were appointed as managers of the newly established for-profit entities of the farmers’ associations. USAID MCA and Land O’ Lakes, as well as the Swedish SFARM 2, are working together to assist the farmers in implementing this initiative by providing technical assistance to build capacity of the newly appointed managers. Therefore, the 26 selected members of two farmers’ cooperatives, including their appointed managers, attended a training course on Business Management Skills organized by SFARM 2. The training program was delivered by a business service provider BASME Consulting and represented an important step forward in the capacity building process for the implementation of the Greek test market initiative.

In addition, USAID MCA engaged an IESC volunteer expert, John Willsie, to support the implementation of this program. During his four-week assignment Willsie worked

closely with the lamb test market working group and assisted the farmers' business entities to improve their management capacity and negotiating skills. He also conducted a market research trip to Greece in order to gather updated market intelligence. (*Please refer to detailed report submitted by John Willsie*).

After meeting with potential buyers in Greece, Willsie delivered technical trainings and recommendations to the representatives of the farmers' cooperatives and slaughterhouses on issues judged as basic criteria for future contract negotiations with Greek supermarket groups. Willsie is expected to continue his work with the farmers' cooperatives in February 2006 and facilitate the completion of the Test Market Pilot Program. His future engagement will be through USAID Participant Training Program.

Initiative No. 02/05 – Market research of regional markets. The milestones of the initiative have not been met. Due to lack of funds to execute the research, this activity was postponed and planned to be implemented by the Macedonian Meat and Dairy Producers' Association.

Initiative No. 03/05 – Ohrid Wine and Cheese Festival. This initiative was completed and reported on in the July-September 2005 Quarterly Report.

Initiative No. 04/05 – International Promotion and Trade Fair Participation. Cluster members Ideal Sipka and IMB, both Bitola-based dairies, presented their products at the biggest international food trade show, ANUGA in Cologne, Germany, in October 2005. This was their second participation at a major international trade fair in Europe after they attended SIAL in Paris with MCA support in October 2004.

MCA facilitated and coordinated the communication between the dairies and the Ministry of Economy that supported financially the Macedonian stand at this fair. MCA also provided technical assistance in the development of promotional materials and helped the companies prepare for exhibiting at the fair. The two dairies judged the organization as very successful and reported more than 250 inquiries received for their range of cheese products from various buyers. They are following up on the established contacts, as well as preparing a test shipment of cheeses for a prospect in a new export market. Based on SIAL experience it takes one to three months for serious potential exporter discussions to convert into test market trial orders.

Cluster Results - Cheese Export Details – Cluster companies Ideal Sipka and IMB Bitola reported four more shipments of Macedonian cheese to Australia, bringing the total exported cheese this year to more than \$920,000 and about 140 tons in volume. The exported volume of cheese in the last quarter of 2005 by the two dairies totaled 40 tons and amounts to \$200,000 in value.

Non-Initiative Updates and Achievements:

- Cluster members Bucen Kozjak from Kumanovo, Ideal Sipka and IMB of Bitola attended the Regional Buyers/Producers Conference held in Belgrade on 17-18

November 2005. The conference was sponsored by the USAID Regional Competitiveness Initiative with objectives to support selected regional producers by introducing them to the representatives of purchasing departments of the largest regional buyers (supermarket groups, hotel chains etc), learning about their real and substantial needs and opportunities for cooperation with these rapidly growing retailers.

- Cluster member Niko Petrol of Stip is investing in a new cheese facility located in the region of Stip. The new dairy will meet the latest EU and international food safety standards (HACCP – Hazard Analyses Critical Control Points, GMP – Good Manufacturing Practices) and primarily be used for export into the US market. The total investment is estimated at 4 million Euros.

Tourism Cluster

Macedonia's visibility as an attractive tourist destination is being extolled through articles in industry and consumer publications in Italy, Serbia, Croatia and the UK as a result of the Journalists' FAM Tour initiative completed in the previous quarter.

Initiative Results

Initiative No. 01/05 – Journalists' FAM Trip. Completed and reported on in July-September Quarterly Report. However, results continue to be reported. Macedonia was featured in a two-page color spread in the November issue of the UK's *International Travel and Tourism News (ITTN)* with circulation of 60,000 travel professionals in the UK (**Please see Appendix 2**). Reg Butler, who attended the cluster's journalist familiarization tour in July, wrote in the "Off-the-Beaten-Track" column that Macedonia is an attractive, unique, must-see destination. The article also appears on two websites that Butler edits: www.laterlife.com and www.emptynester-travel-breaks.co.uk. Butler also wrote articles in two UK newspapers, the Gloucester Citizen and Gloucester Echo that appeared in mid-August.

A piece on Macedonia as an attractive tourism destination will appear in next issue of *Wanderlust* magazine, a UK trade publication. The author of the article is Tony Kelly, a journalist who visited Macedonia on the FAM trip the cluster hosted last July and is a direct result of this initiative. *Wanderlust* magazine is read by more than 100,000 people in 112 countries.

Initiative No. 02/05 – Anti-Litter Campaign. Completed and reported on in April-June 2005 Report.

Initiative No. 03/05 – Penetrating German Market. This initiative was not completed because the German tour operator Dertour, identified as partner for the implementation of the project, was not able to get involved at the time suggested and postponed its implementation for the summer of 2006.

Initiative No. 04/05 – Management Training. The training for the travel agencies in cooperation with CBI (agency of The Netherlands Government) was completed in November 2005. For the tourism sector, the program focus was on participation under the CBI umbrella in the tourism fair in The Netherlands “Vakantiebeurs” in Utrecht, from 10-16 January 2006. To prepare for participation and select participants CBI organized a two-day workshop for senior staff of companies (cluster members) for incoming tourism and some relevant officers from the public sector. The training focused mainly on marketing and tourism fairs in general.

Seventeen cluster members attended a workshop, "Effective Trade Fair Participation," conducted by the Dutch import agency CBI in cooperation with MCA. Participants received a certificate of completion of the course that was awarded by a representative of the Embassy of the Kingdom of the Netherlands from Skopje.

After completing the training, CBI extended an invitation for participation in their trade fair program to 8 Macedonian Travel agencies that qualified. Due to timing – short time to prepare materials and plan, as well as overlap of fair with Orthodox Christmas, no cluster members accepted the invitation and signed up for this 4 year program. Their budgets for 2006 were allocated prior to this opportunity and their planning completed.

The second component of the training initiative is through IESC VEs that will strictly focus on improving customer service for reception / front line staff and wait staff, as well as kitchen practices. This will be realized in cooperation with HOTAM as a joint initiative. Cluster members will cost share either by paying to attend or offering in-kind contributions. Status is waiting for VE to express interest in this undertaking.

Non-Initiative Updates and Achievements

- The Hotel Association of Macedonia (HOTAM) has initiated a project for promoting Macedonia to the world, by meeting with government officials and proposing a promotional ad campaign on CNN. They recommend a one-year run and a commercial that depicts Macedonia as an attractive, safe and unique place to visit. The objective would be to raise awareness of Macedonia and also lure tourists to this part of the world.

Information Technology (IT) Cluster

Eleven production, pre- and post-production firms are forming a new company to develop a “digital media/film city,” planned to be a one-stop shop for film companies and others needing such services. Skopje joined several other global digital metropolises in becoming a digital sister city with San Francisco. MASIT continued to aggressively promote itself as a leading representative of the IT sector in Macedonia and now deserves label "the core of the IT cluster". MASIT led and successfully implemented several high-level initiatives, such the formation of the IT Experts Committee, and initiated

cooperation with other associations such as MADE and the cooperation with the Bulgarian ICT cluster.

Initiative Results

Initiative No. 01/05 – Implement Sector PR. All milestones for this initiative were met or exceeded and reported in April-June 2005 Report. The initiative is complete.

Initiative No. 02/05 – Deepen MacedoniaIT/Develop Outsourcing Consortia. All milestones were met or exceeded in April-June 2005. The initiative is complete. MCA initiated several meetings with both groups to determine next steps. MacedoniaIT did not come to a fixed next step, and the group is dissolved at this point. ITSM Group decided to continue with the co-marketing model but did not make any pro-active steps into implementation.

Initiative No. 03/05 – Organize Domestic IT Buyers for IT Vendors Conference. A planned kick off meeting to be held in April was delayed several times since the initiative was slow in gathering official support from the Prime Minister's office. MASIT Board of Directors voted to include this initiative as a third day of MASIT Open Days, which will be implemented in February 2006. The vendors' round table is planned for 17 February 2006.

Initiative No. 04a/05 – MADE Capacity Building. All milestones were met or exceeded. The Macedonian Association of Digital Media (MADE) members worked hard on developing a strategic plan for 2005. They have formed 5 working groups and will focus on workforce development, film town and marketing. They have had intensive meetings, formulating the "Digital Media/Film City" proposal. They secured support from the major movie makers, educational and training organizations. In cooperation with Pro Mark Media Association, MADE organized several introductory meetings with high-level Macedonian and international government officials. The DMFC proposal received great support. The members will continue to work on the development of the idea.

Initiative No. 04b/05 – Digital Media Training Programs - All milestones were met or exceeded in April-June 2005. The Axis-Avid-Soft Image Training Centre promoted the first 20 graduates. The second round of 3D@E-Schools animation training was completed.

Initiative No. 04c/05 – MADE Export Consortium. All milestones for this initiative were exceeded. The MADE Export Consortium is working actively on the formation of a for-profit company to develop a "Digital Media/Film City. With the assistance of IESC volunteer expert Michael Keating, they finished a feasibility study for the company and identified the investment model, as well as the organizational structure and future steps for financing and development of the company.

Initiative No. 05/05 – Software Product Positioning Interventions (Firm-Level). All milestones in this initiative were exceeded in July September 2005, and the initiative is now complete.

Initiative No. 06/05 – Training & Certification – From the July discussions with the Bulgarian ICT cluster, BASSCOM (Bulgarian IT association) and the European Software Institute, 10 Macedonian companies began the CMMI/IT Mark certification path, with the first three-day intensive course for middle managers. This initiative is now complete.

Initiative No. 07/05 – Exporting to the EU Guide – MCA did not meet the milestone to define scope for the guide by 3 March 2005. The delay was related to elections and change of leadership in MASIT, the implementation partner for this initiative.

MASIT asked MCA to re-direct the funds allocated to this initiative to the Macedonia IT Industry Benchmarking projects, as the MASIT Board of Directors voted the research as a higher priority. MCA and USAID concurred with the request.

Initiative No. 08/05 – Support MASIT Open Days – All milestones in this initiative were met, the initiative was completed in February 2005 and reported on in January-March 2005.

Non-Initiative Updates and Achievements:

- The IT Cluster remained focused on the two market niches identified last year: IT services “near shore” outsourcing and digital media. According to the last update given to the Cluster Leadership Council and cluster members in late August, MCA scaled down the level of technical assistance provided to individual firms that are selling software products, and needed to penetrate new markets.
- MASIT continued working aggressively on promoting itself into as a leading representative of the IT sector in Macedonia, and now deserves label "the core of the IT cluster." MASIT led and successfully implemented several high-level initiatives, such the formation of the IT Experts Committee, and initiating cooperation with other associations such as MADE and the cooperation with the Bulgarian ICT cluster.
- MCA has reduced the level of support to three Consortia: MacedoniaIT (7 companies), ITSM Group (5 companies focused on IT outsourcing) and MADE Export Consortium (8+ companies focused on digital media). MADE Export focused much more on building support for the Digital Media Film City and the Digital Media Sister cities initiatives.
- In terms of building cluster sustainability, MCA supported the process of the IT Experts Committee formation with active participation in all meeting. Several MADE members are a part of the IT Experts Committee as well. The members elected a president, who sits on the MASIT Board of Directors with equal voting

rights. In addition, the IT Experts Committee has elected 7 representatives to each of the MASIT committees, as representatives from the group, to advise MASIT on course of action.

- Digital Media Film City Corporation is formed. Skopje joined several other global digital metropolis in becoming a digital sister city with San Francisco.

Wine Cluster

Macedonian wines received strong publicity in key markets of interest. UK and Austrian wine writers visited Macedonian wineries and published favorable articles about Macedonian wine. Macedonia was also featured in a German specialty wine magazine. The members of the Macedonia Fine Wines Export Group formed an export consortium for the UK market.

Initiative Results

Initiative No. 01/05 – Quality Improvement. The initiative is partially completed as David Stevens, US-based wine consultant/expert, was scheduled for a second visit of Macedonia to work with the wineries on wine technology issues in the fall 2005. Due to wine cluster budget revisions, his visit was cancelled.

Initiative No. 02/05 – Export Test Marketing Program. The initiative is completed and reported on in July-September 2005 Report.

Initiative No. 03/05 – Wine Marketing Training. The initiative is completed and reported on in July-September 2005 Report.

Initiative No. 04/05 – Tikves Region Water Management Assessment. In October 2005, in cooperation with MASHAV (Center for International Cooperation within the Ministry of Foreign Affairs of the State of Israel) an Irrigation Expert, Mr. Avi Shani, did an assessment of water supply and management in the Tikves region. Tikves accounts for 70% of the total grape production in Macedonia and is extremely important region for the Macedonian wine industry. The purpose of the assessment was to identify the problems and propose solutions for continuous supply of water to farmers and its cost-effective use. Efficient water management provides an opportunity to successfully control the quality of the grapes produced and would allow wineries to access high quality grapes produced with lower costs, thus increasing their ability to implement the strategy to improve quality of Macedonian wine in order to be more competitive in foreign markets.

The assessment included field visits and inspection of the existing water supply network and irrigation systems, as well as meetings with representatives of the local water management institutions and associations of water users. In addition, the assessment included visits of representative vineyards to inspect the terrain and the irrigation needs of grape growers. The Irrigation Expert delivered a workshop for grape growers in the Tikves region. The workshop served as a wrap up session to summarize part of the

findings of the assessment and propose solutions for the irrigation problems. Latest technology trends in drip irrigation and tips for choosing and installing drip irrigation systems in the vineyards were presented.

As a result of the assessment several initiatives that can have serious influence on increasing quality and competitiveness of Macedonian wine were identified (*Please refer to detailed report submitted by Avi Shani*).

Initiative No. 05/05 – Technical assistance to grape growers. The realization of this initiative depends on built relationships between wineries and their suppliers in order to have a narrowly defined target group and identified training needs. The originally planned target group was growers who have signed contracts with wineries. In 2005 only Tikves signed contracts with grape growers as a first step in establishing long term relationships with their suppliers. Due to the blocked bank account of the winery in the middle of the harvest season, Tikves was not able to pay the growers as originally agreed and the fragile trust was destroyed. Thus the precondition for realizing the initiative was not fulfilled.

Initiative No. 06/05 – Wine Laboratory. This initiative is not expected to be completed with USAID's support in the near future. Reasons reported in MCA's Quarterly Reports (July - September 2005 and April-June 2005).

Initiative No. 07/05 – Wine tasting event in foreign market. The initiative is completed and reported on in July-September 2005 Report.

Initiative No.08/05 – UK Wine Writers Taste Tasting Trip. At the end of October 2005 the Macedonian Fine Wine Export Group (MFWEG) hosted two UK wine writers in order to generate greater media coverage of Macedonia and Macedonian wines in leading specialty wine magazines in the UK and increase knowledge within the UK wine trade about Macedonia as a source of fine wines. The media trip for two UK wine writers was a follow up of the UK export marketing initiative and promotional event organized in September 2005 in London. The six wineries members of the MFWEG presented their "new wave" wines in the UK and gave away a prize to one of the wine writers present at the tasting. In addition to the prize another wine writer was invited to visit Macedonia and tour the six wineries.

The wine writers who participated in the taste tasting trip were:

- **Stuart George**, freelance wine writer, regularly writes for *The World of Fine Wine* and occasionally for *Decanter*, *Wine International* and *Harpers*.

- **Dawn Cran**, wine writer for *Harpers Wine and Spirits Magazine*, weekly publication in the UK, distributed strictly to subscribers. Harpers readers are defined as decision-makers, with over 85% listed as middle to senior management. Harpers subscribers include:

- 95% of all wine importers, agents and distributors
- 100% of key multiple and specialist grocery outlets
- 85% of all large independent wine merchants & wholesalers

- 75% of all spirit producers and importers
- 100% of the major wine & spirit groups in the UK

During the six-day visit, the two wine writers visited the facilities and vineyards of six Macedonian wineries (Bovin, Cekorovi, Fonko, Pivka, Popov and Skovin) and sampled their wines. In addition to increasing awareness about Macedonian wines, the visit by the two wine writers allowed the members of the MFWEG to have immediate feedback for their products, with suggestions for improvements and positioning of their wines on the UK market. Apart from visiting the wineries and vineyards of the six wineries, the wine writers visited tourist locations and learned about Macedonia's culture and natural beauty. The articles that will result from this media trip are expected to be published in early January 2006.

Non-initiative Updates and Achievements:

- In cooperation with The Regional Competitiveness Initiative, two Macedonian wineries (Bovin and Skovin) were visited by three Austrian wine writers: Michael Pronay - *A La Carte*, Luzia Schrampf - *Der Standard* and Darrel Joseph – contributor to *Wine and Spirits International*, *Decanter* and annual wine publications such as *Hugh Johnson's Pocket Wine Book*. The visit was part of a regional tour of wineries from four neighboring countries: Romania, Bulgaria, Macedonia and Serbia and Montenegro with the purpose to inform about and promote the wines produced with latest changes in production technology and investments done in the wine industries in these countries.
- Macedonia was featured in the German wine magazine *Wein und Markt* together with the most famous wine countries in the world: France, Italy, Spain, Austria, USA etc. The piece contained general information about Macedonia, information about the 2005 harvest, latest trends and changes in the industry, among which the establishment and activities of the MFWEG (*Please see Appendix 3*).
- Three wineries completed their HACCP certification (Bovin, Pivka and Ezimit) and two more are in the process of implementing HACCP (Skovin and Popov) in order to adapt to the newly enforced regulations for export in the EU. Another international standard certification was completed by Fonko through implementing the ISO 9001.
- The six wineries members of the MFWEG registered an export consortium for the UK market and are in the process of appointing a UK based sales agent for their wines. This initiative coupled with the plan to establish an independent tasting comity to evaluate the wines of the six wineries in order to assure consistent quality and to form a wine trade association is an important step forward to building the image and style of Macedonian quality wines as well as promoting and stimulating their production and consumption.

- In December 2005, the wine cluster members who took part in the 2006 planning session identified initiatives for the cluster's sustainability as well as the assistance needed from MCA to achieve it. Supporting the activities of the MFWEG provides solid base for future sustainability of the cluster and efforts to increase its competitiveness.

Apparel Cluster

Apparel cluster companies can increase their productivity by 40 percent by introducing changes in the flow of operations and without any investment in new equipment. The Progressive Bundle System was widely accepted by cluster companies after a demonstration of the results from apparel companies that have the prototype line already installed.

Initiative Results

Initiative No. 01/05 – Joint Exhibition at European Trade Show. The participation at the trade fair in Milan, Italy (completed in January-March 2005) continues to bring substantial business contracts to several cluster companies:

- Kimico is negotiating with a Milan based underwear producer for moving the whole production in Macedonia.
- Deltatex signed a contract with Versace for 50,000 shirts and 30,000 pants as a direct result from this year's participation at the trade fair in Milan, Italy.
- Milano signed a contract with a new Italian business partner PINKO for a test order of 5,000 pieces of various clothing items (blazers, pants, shirts) with the potential to grow to 200,000 pieces on yearly bases. Due to the new contract the company employed an additional staff member in the sales and marketing department.

Initiative No. 02/05 – Improving promotion. The initiative is completed and reported on in January-March 2005 Report.

Initiative No. 03/05 – Assessing potential for production improvements. The initiative was completed and reported on in October-December 2004 Report.

Initiative No. 04/05 - Improving Production. Two cluster companies, Deltatex, Kocani and Sonitex, Kavadarci, were selected as implementation partners for the pilot project on productivity and quality control improvements in apparel production. This project was managed by the apparel consultant Eugene Zenoff and prof. Goran Demboski from the Faculty of Technology. The preliminary analysis of the pilot project on productivity improvements that took place at Deltatex showed that productivity was increased by more than 50% for women's blouses/shirts using the new layout of operations and without any new investments in equipment. In addition to providing technical assistance in installing the new system, operators and company engineers were trained by Zenoff to use the installed production system.

Furthermore, Zenoff and Dembovski delivered a workshop on productivity improvements. The workshop took place in Deltatex, Kocani and was attended by more than 70 cluster members. After the presentation and practical demonstration of the achieved results many of the attendees expressed interest to re-engineer their production process according to the presented Progressive Bundle System and increase their productivity by 40%. Another prototype line was installed and is functioning at the factory Sonitex in Kavadarci.

As part of his assignment, the apparel consultant did a complete design and lay out for a jeans factory for the needs of a cluster company from Stip that is looking into investing in a new facility.

Initiative No. 05/05 - Feasibility Study for Foreign Direct Investment. The business service provider BASME finalized the feasibility study for FDI in fabric production in Macedonia (***Please refer to attached full feasibility study***). A final presentation of the study that contains review of the industry, the investment potential, a guide and information on the model of the investment was presented to the Apparel Cluster Leadership Council on 13th October, 2005 in Stip. This is an important milestone for attracting foreign direct investment to contribute to future improvement of the competitiveness of the Macedonian apparel industry. As a next step the Textile Trade Association, a cluster member, sent a letter to the Ministry of Economy requesting FDI in basic textile production to be allowed in free economic zones in Macedonia.

Initiative No. 06/05 - Government Regulations and Legal and Regulatory Reforms. The pilot project implemented by the Macedonian Customs office, USAID MCA and the Apparel Cluster members continued by sending the final customs manual for import procedures and the manual for customs warehousing to the cluster membership.

A cluster company, INT from Kocani, was approved by the head office of the Macedonian Customs for the pilot project for implementation of the new customs law and regulations.

Initiative No. 07/05 - Textile Human Resource Development. The letter sent to the Dean of the Faculty of Technology from the Apparel Cluster and the Textile Trade Association outlining the need and importance of re-design of the current textile curriculum, resulted with a positive outcome and response from the Dean's office. The new curriculum will provide the students the opportunity for specialization during the 4-year studies, opposed to the currently offered more general subjects in the first two years of university studies.

USAID MCA will provide technical assistance for the design of the new curriculum by assigning an IESC VE to work with the Apparel Cluster Leadership Council, the faculty professors and the Dean at the Faculty of Technology. The project is expected to be implemented in the beginning of 2006.

Initiative No. 08/05 – Visit of Representatives of the Danish Textile Industry. Due to other identified priorities by the apparel cluster members, the initiative is postponed and expected to be completed in the first quarter of 2006.

Initiative No. 09/05 – Second Round of Exhibiting at Trade Fairs. The participation at the trade fair in Madrid, Spain (completed in July-September 2005) brought business contracts for the cluster companies:

- Kimico signed a new contract (urban style washed program of jogging jackets with hoods) with CARREFOUR, Spain as a result of the contact established at the trade fair in Madrid earlier this year. Kimico also signed a new contract with the Spanish retailer ZARA for 55,000 pieces of washed cotton sweat blouses (children, women and men) as a result of the participation at the same fair.
- Anertex signed a contract with a Spanish company for 20,000 woven blouses with a possibility for a substantially larger order.

Non-Initiative Updates and Achievements

- More than 60 cluster members attended the workshop that CBI in partnership with USAID MCA delivered in order to introduce its 5-year export development program for the Macedonian garment industry. The purpose of the workshop was to familiarize the cluster members with the services of CBI and opportunities that lie ahead in the arena of targeting effectively the EU apparel market and attracting new EU customers to build on to the sales and marketing activities already implemented by the Apparel Cluster.

The workshop covered the following topics:

- Partner selection on the EU market
- Demonstrating competitive advantages through promotional materials, use of website etc
- How to prepare for trade fair participations
- Improving production process - product cycle time: how to become more productive and how to increase flexibility
- Human resources development: how to strengthen the skills of employees in areas such as marketing, sales, project management, design
- Quality management in procurement
- EU sector information
- Segmentation of consumers
- Distribution channels and trade channels
- Product development - reengineering
- Sourcing
- CBI fashion forecast for winter 2006

At the end of the one week implemented program, more than 30 cluster members applied for participation in the CBI export development program. The final selection of 25 companies that will receive the 5-year CBI technical assistance

will be done in the beginning of 2006 by the CBI team that will come in Macedonia to meet individually with each of the applicants.

- Eight cluster companies (Bergamo, Hatra, Maksimo, Viteks, Polaris, Linea, Paltex and Albatros) are attending a business-to-business forum in Switzerland, sponsored by SIPPO.
- Deltatex, an apparel cluster company, signed a significant contract with New Trend (e-Biz center) to use its CAD/CAM and automatic cutting services. According to the agreement, the whole production to be finished by end of January will be effected by this E-Biz center. The same company signed a contract with UK-based customer for a test order of 3,000 (own label) pieces of t-shirts, polo shirts and sweatshirts. The test order will be followed by another contract for 15,000 pcs.
- The Apparel Cluster Leadership Council made the first step towards cluster sustainability with the merger of the Textile Trade Association and the Apparel Cluster. At the meeting held in December 2005 the Apparel CLC announced the merge and presented the work plan for 2006. The meeting was attended by 120 industry representatives. The new organization aims to establish itself as a self-sustainable and professional trade association for the industry, thus introducing annual membership fees (100 euros per year per member). By the end of 2005 more than 40 companies paid the preliminary membership fee and are willing to pay more in order to reach the targeted annual budget of 15,000 euros for opening a new office and hiring staff that will continue with the activities.

Component D: Cluster Support and Sub-Projects

Grants Program

With the application process closed in September 2005 there were no new grant applications during this quarter. With 18 grants approved in the previous quarter, many of the applicants planned their activities for the first quarter of 2006.

Slobodanka Velickova, grants administrator, worked closely with cluster members to help them with the implementation of their planed activities.

Updated on Previous Awarded Grants:

1. **MASIT** has reported important results from its new membership in WITSA the global IT organization. For example, MASIT now has access to a number of databases, substantial research and valuable reports on the global industry at no cost, reported in the July-September 2005 Quarterly Report. During this quarter MASIT announced and implemented its first Annual Awards for IT Achievements. This is supported technically by WITSA. The prize consists of taking part at the WITSA Excellence Award 2006.

A committee of MASIT's Task Force coordinators and the president of the MASIT IT Experts Council selected winners. On 15 November 2005 MASIT announced this activity and invited all MASIT members to participate; deadline for submission of the applications was 10 December 2005. Fifteen applications were received in three categories: Private Sector – 9 solutions were nominated; Public Sector – 5 solutions were nominated and Digital Opportunities – 1 solution was nominated.

The nominees made a presentation of their application in front of the selection commission. The selection commission suggested the three winners to the MASIT's Managing Board, and the Board approved the following winners:

- Private sector category – to Artisoft for their ArtAIIS – Artisoft Integrated Information System,
- Public sector category – to NextSense for their solution of www.uslugi.gov.mk,
- Digital Opportunities – to On Net for their Macedonia First Broadband Nation achievement.

The awards were presented to the winners on this year MASIT New Year Celebration at end of December 2005, where over 800 people were present. Toni Petreski, president of MASIT, gave the Private Sector Award, to George Gicev, Artisoft CEO, Jani Makraduli, KIT president and deputy prime minister, presented the Public Sector Award to Vasko Kronevski, Next Sense CEO; and Radmila Shekerinska, deputy prime minister, gave the Digital Opportunity Award to Predrag Cemerigic, On Net CEO.

2. **Axis-Avid-Softimage Authorized Training Centre** graduated its first 23 students at a ceremony on 7 December 2005. The certificates were handed out by Richard Goldman, USAID Macedonia chief of mission.

Five young women that had been awarded Presidential Scholarships to attend Axis-Avid-Softimage Certified Training Center were among this group of students. Six of the graduated students have already been hired for a six-month project on computer graphic and visualization effects at Axis Production. Three students are employed with other PR and production houses.

Another training group started its classes in November with 17 new students and the courses will end in February 2006.

Axis has also launched a marketing and PR campaign in the neighboring countries (Albania and Kosovo as a start) during this quarter. The campaign was made through tailored presentations for production studios, TV stations, advertising agencies and education institutions. The presentations were also used for negotiations for future partnerships. Besides those there have been advertisements in the local newspapers, interviews on local TV shows, banners on internet etc. *(Please see Appendix 4 for copy of the promotional brochure, copy of the production and authorized training center CD and copy of various ads).*

More than 60 applications are received from applicants from the neighboring countries, Bulgaria, Serbia, Albania and Kosovo. Those students will have the option to attend “One-Week Intensive Training” where the courses will be held intensively with eight-hour daily sessions, or “Weekend Training” held over six weeks. Those courses are planned to start in February 2006.

The Quality School International – QSI, also showed interest to include classes in digital animation for their students in the age group of 12 to 16 years, and Axis Authorized Training Center presented an offer for a five-month course of basic animation techniques.

3. **Liva Komerc**, the private operator of the facilities at the **Stobi Visitors Center** continued to promote the center during this quarter. The Visitor Center was opened on 22 October 2004, and Liva Komerc used the annual celebration to analyze the number of visitors during their one year of operation. The number of visitors during the summer months, when initial promotional activities started and billboards were placed on both sides of the highway, increased more than 70 percent and for the consecutive months the increment was 50 percent. Liva Komerc is satisfied with the one-year results and is confident that the next year’s the results will increase further. The Center is not operational during the winter months due to a heating problem. The Visitor Center was closed in December and re-open in February 2006.

Placement of permanent Mega Boards visible from both sides of the highway is planned for sometime in the January-March period and a promotional event is planned for the month of February 2006.

4. **ZONA**, an IT company in Prilep, was awarded a grant to support its market research and market penetration activities on the EU market. The results of the market research carried out during last quarter gave significant directions for improvement of their promotional and marketing strategy.

Based on those results, the company re-designed the promotional material for its interactive dictionary CD. The company presented its product, an English-German CD dictionary, at a book fair in Frankfurt on 19-23 October 2005, among 7,200 other exhibitors from 101 countries. The initial responses from the two largest book and media product distributors in Germany, Klett and Langenscheidt, are promising. Negotiations for distribution agreements are going on. Interest in the product was received from other book and CD distributors as well. *(Please see Appendix 5 for copy of the Fair Catalog featuring Zona and photos from the Fair Stand of Zona)*

5. **MADE Export Consortium** was awarded a grant to participate in SIGGRAPH, the leading exhibition and conference for computer graphics and visual effects, and MIPCOM in Cannes 2005, the world's audiovisual content market – the objectives of these activities come from the consortium's vision and focus in 2005. Results from SIGGRAPH were reported in the July-September 2005 Quarterly Report.

Members of the MADE Export Group were at MIPCOM on 9-13 October 2005. The Ministry of Economy yet again failed to transfer the company funds to cover exhibition costs; these had been transferred to the account of the Ministry in May this year. Therefore MADE Export Consortium was not able to pay for an exhibiting stand and went as visitors only. The Consortium representatives were able to make several meetings with animation studios, animation training center, broadcasters and production houses. Follow up activities are distributed among the consortium companies and the MCA Cluster Advisor Romela Popovic-Trajkova.

6. **Global Plus**, an apparel agent, was awarded a grant to promote the first textile logistic center in Macedonia targeting the EU market. Global Plus is a logistic center for 59 textile confection subcontractors in Macedonia. During this quarter, the company has started the activities by providing bids for the promotional materials and activities they want to produce.
7. **V.I.T., MK Linea and MK Milano** – the three apparel companies that joined together, creating the consortia Astibo-Export, in an effort to penetrate the EU market with their ready-to-wear collection "Porta Bena", semi-heavy collection. During this quarter, they completed part of their market research, and the results

of the research have been used for the preparation of their collection design and promotional activities.

8. **Gord Systems** - an independent software development company that focuses on development and implementation of e-business solutions for the healthcare system and SME, visited the trade fair “Medica 2005” in Düsseldorf, Germany. Medica is a specialized fair for the health care, and the largest one in Europe of that kind, where one hall is dedicated for presentation of software solutions. The visit to Medica helped Gord Systems to establish several contacts with prospective clients for export of their software product on the market in Germany. The communications are ongoing and a contract for partnership is the desired outcome.
9. **Hotel Arka**, an active Tourism Cluster member that focuses on improving its hotel practices, was awarded a grant for promotion, increasing hotel road signs and billboards and production of brochures. During this quarter the hotel has placed several road signs on roads to Skopje from the airport and from Kosovo, on the main streets of Skopje and in the vicinity of the hotel. *(Please see Appendix 6)* Arka Hotel also started their preparation activities of production of a hotel brochure / flyer. The material should be printed within the first month of 2006. The brochure will be used for their promotional activities planned for 2006.
10. **Gracija**, an apparel manufacturer, was awarded a grant for promotion of its own collections at the important fashion shows in London and Paris. The collections are their proprietary collection of the top two Macedonian designers who actually have offices in London and Paris and have knowledge of the market, contacts and well-established network in the fashion world.

A direct result of presentations of the spring / summer 2006 collection at the London Fashion Week and Paris Fashion Week by two designers of Gracija are orders from a renowned boutique chain from Japan and several boutiques in Paris and Denmark. The orders are for brand garment pieces and accessories, for the spring / summer 2006 collection, with an average price of over \$90 per piece. The total amount of the orders so far is approximately \$14,000 *(Please see Appendix 7 for cover of the collection brochure and the invitation which was mailed to prospective clients)*.

11. **Inet**, an IT company, was awarded a grant to support its efforts to become a consultant for the renowned SAP software and increase their export potential. SAP solution is designed to deliver a better return on technology investment, to gain the visibility to identify inefficiencies, and the resources to help reduce them. During this quarter the company has purchased part of the SAP software.
12. **Serta** - slaughterhouse in Kavadarci, one of the pioneers in the slaughterhouse livestock industry on the Macedonian market, was awarded a grant to assist in its

efforts to obtain the necessary equipment to meet HACCP standards. During this quarter, the company sought bids for the equipment it needs to purchase.

13. **Buchen Kozjak**, a dairy in Kumanovo, was awarded grant to help establish safety food production practices in accordance to US requirements (FDA and USDA) for import to US and EU. Buchen Kozjak is part of the sheep cheese consortium of four dairies, united for the very first time in Macedonia and exporting on those markets for the first time as well. During this quarter the company has started the activities by providing bids for the dairy equipment they need to purchase. They expect to have the arrangements made by the beginning of next year and have the equipment produced and purchased during the first quarter of 2006.

14. **Hotel Mramor** - a family business providing hotel services mostly to business people with temporary residence in the Skopje region, was awarded was awarded a grant for promotional activities. During this quarter, the company started by providing bids and working on the design of the promotional materials and promotional activities they want to produce.

Component E: Coordination and Synergy (with USAID and Other Donor Activities)

Specific examples of USAID MCA's cooperation with USAID and other donor activities are provided where appropriate throughout this report.

USAID Projects	Other Donors/Donor Activities	Other Entities
RCI – Regional Competitiveness Initiative	European Agency for Reconstruction – Creation of a Vineyard Monitoring and Management System, Support of Reforms in Agriculture	Ministry of Economy: <ul style="list-style-type: none"> • Tourism Department • Foreign Investment Agency • Export Promotion Department
EDEM – Albania Competitiveness Activity	S-FARM 2 (Swedish government supported development program)	City of Skopje
I-LEAD/E-Biz	SIPPO – Swiss import promotion agency	Macedonia Customs Office
PTP/World Learning	GTZ – German Development Agency	University of St. Kiril & Metodius – various faculties
US Embassy Commercial Officer	CBI – Dutch import promotion agency	San Francisco Mayor and Digital Media Advisory Board
LOL/Agland	UNDP – UN Development Program	Municipality of Karpos
Aid to Artisans	MASHAV - Israeli development agency	Deputy PM's office
WTO Compliance Project	ICE – Italian institute for international trade	Protect M, Skopska Pivara, Tinex markets
Macedonia Connects	IFAD – International Fund for Agricultural Development	Media Print Group, Reprint
		San Francisco Rotary Club
		BASME, SMMRI
		Eastern Sheep Breeders Association
		Western Sheep Breeders Association
		MASIT, MADE, TTA
		ATAM – MK travel agency association
		HOTAM – MK hotel association
		Bulgarian ICT Cluster, BASSCOM

Component F: Gender

The MCA team continued to monitor gender aspects of the project's implementation. All the surveys conducted in 2005 provided gender disaggregated information. The public "mental models" survey conducted in October 2005 to assess attitudes, awareness, understanding, trust and behavior change showed that there were no significant differences regarding attitude among different gender respondents. The breakdown of percentages per means of information about MCA activities showed that largest portion of the women (64%) have heard about MCA through television, while men access this information through TV and contacts at work.

15% of the grant applications submitted in 2005 were from female owned or managed companies. 87% of the female applicants were awarded a grant opposed to the 45% of the male applicants. This is due to the fact that the applications submitted by women corresponded to the cluster objectives (Source: MCA grant administration records).

Table 1 and 2 illustrate gender representation in the different activities and organizational structures developed by MCA.

In absolute numbers:

- 100 women were trained at different workshops and trainings organized by MCA in 2005 covering marketing, management and technical production areas for the different clusters. This was enhanced by organizing workshops for the businesswomen network in strengthening self-confidence and development of presentation, negotiation and lobbying skills.
- 133 women attended MCA organized events such as conferences, trade fairs, and export promotion events both in and outside of Macedonia.
- 103 women participated at cluster and NECC meetings.

Table 1. Gender disaggregated data on project activities

Indicator	Tourism Cluster		L&C Cluster		IT Cluster		Wine Cluster		Apparel Cluster		NECC		Grants		PED	
	#W	#M	#W	# M	#W	# M	#W	# M	#W	# M	#W	# M	#W	# M	#W	# M
Cluster Leadership Council members	4	7	4	8	5	16	3	4	2	10	N/A	N/A	N/A	N/A	N/A	N/A
Cluster/NECC members	31	55	9	30	12	45	10	40	45	55	3	18	N/A	N/A	N/A	N/A
Participants at cluster/NECC meetings	18	20	30	80	12	45	14	35	17	20	12	49	N/A	N/A	N/A	N/A
Participants at trainings	N/A	N/A	15	50	36	96	19	48	34	45	1	12	N/A	N/A	N/A	N/A
Participants at events	N/A	N/A	15	60	34	52	4	8	0	5	80	120	N/A	N/A	N/A	N/A
Participants at events designed for journalists	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	18	7
Grantees	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7	20	N/A	N/A

Source: MCA attendance records and lists of officially selected representatives for decision making bodies

Table 2. Summary of gender integration in project activities in 2005

Indicator	Tourism Cluster	L&C Cluster	IT Cluster	Wine Cluster	Apparel Cluster	NECC	Grants	PED
% of women in decision making bodies in the cluster (CLC) / NECC	27%	30%	29%	43%	17%	22%	<i>N/A</i>	<i>N/A</i>
% of women cluster members (owners and / or managers of cluster companies)	47%	31%	21%	18%	40%	<i>N/A</i>	41%	<i>N/A</i>
% of women participating at meetings (wide cluster or NECC meetings)	53%	40%	21%	26%	46%	20%	<i>N/A</i>	<i>N/A</i>
% of women participating at trainings (workshops delivered by MCA technical assistance resources)	<i>N/A</i>	30%	27%	28%	38%	8%	<i>N/A</i>	<i>N/A</i>
% of women participating at events (trade shows, festivals, business related trips, conferences etc)	<i>N/A</i>	none	40%	30%	none	40%	<i>N/A</i>	<i>N/A</i>
% of women participating at specially designed events for journalists	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	72%
% of women grantees	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	26%	<i>N/A</i>
% of newspaper/magazine interviews and TV appearances done by businesswomen	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	29%

Source: MCA attendance records and lists of officially selected representatives for decision making bodies

Component O: Project Management

As of October 2005, Aleksandar Blagoevski-Trazoff, IT Cluster advisor, was engaged with MCA on a half-time basis. Blagoevski-Trazoff will work with the IT Cluster until the cluster close out in February 2006, at the same time working as a manager and owner of a private company that provides export strategy development and execution services to businesses. This arrangement was approved by the CTO.

MCA requested a contract modification to close the project at the end of June 2006 when all contract requirements will have been met. Although the Mission indicated this modification would be approved, formal approval was still pending as the quarter closed.

As MCA discontinues its direct support of the five clusters, staffing needs will be reduced. A staff reduction plan was prepared and discussed with the CTO. Each staff member was given a date for the close of his/her employment with MCA with at least three months of lead-time.

APPENDIX A

NATIONAL ENTREPRENEURSHIP AND COMPETITIVENESS COUNCIL

NATIONAL COMPETITIVENESS REPORT

Prepared by the NECC team:

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Skopje, December 2005

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I. Introduction

A brief definition of the word *prosperity* reads: an economic state of growth with rising profits and full employment¹. Today the prosperity of a given country's economy is, as a rule, seen as closely correlated to its *competitiveness*.

Competitiveness, in turn, can be defined as *firm²-level productivity*. Businesses are, in fact, the key driving forces of economic growth. Their capability for innovation, together with good employee incentives, ensures that they can satisfy their customers' demands, thus achieving better market positioning and capturing a growing share in the markets. These define their level of competitiveness and ultimately the level of competitiveness of the national economy.

The National Entrepreneurship and Competitiveness Council of Macedonia (NECC) uses this definition of competitiveness to emphasize that competitiveness is created at firm level, within the private sector. And in the context of achieving private sector (firms') competitiveness, the role of the public sector is to provide the necessary preconditions for faster growth of their competitiveness as well as stimulation to entrepreneurship. To improve the competitive performance of a small economy such as Macedonia's, strictly focused strategies must be defined and implemented in an environment of mutual consent among the public, private and civil sectors of the country.

¹ WordNet 1.7.1 Princeton University

² The word *firm* is used in the broad meaning encompassing both services and production

The NECC has undertaken the ambitious task to produce the first National Competitiveness Report of the Republic of Macedonia, with the aim of building a shared vision and culture of competitiveness that will adequately include competition, innovation and sustainable development. For this report, the NECC primarily used the findings presented in the World Economic Forum (WEF) 2005/2006 Global Competitiveness Report.

Macedonia's first National Competitiveness Report is an account of the facts and informed recommendations. As such, the Report is designed to assist domestic and international economic and socio-political experts in their economic analyses, evaluations and suggestions towards defining the principles of future economic development policymaking in the Republic of Macedonia.

Why does Macedonia need a national competitiveness report?

The National Competitiveness Report should present a comprehensive picture of the existing level of the Macedonian economy's competitiveness and help to define strategies for further improvement of domestic firms' competitiveness. Analyses, consultations, information exchanges as well as proposals are an integral part of a national competitiveness report. In addition, Macedonia needs to:

- Measure the country's level of economic development and its capability to integrate into the globalizing world. Publishing a Competitiveness Index provides this measure;
- Identify where Macedonia's current economy is positioned relative to the region and world;
- Attract foreign direct investments. Foreign investors look to the Competitiveness Index when they evaluate countries for investment;
- Highlight priorities and define the preconditions necessary to ensure sustainable economic development and growing prosperity for Macedonia's citizens.

What should the Report show?

In addition to presenting the Competitiveness Indexes for Macedonia, the National Competitiveness Report also highlights the general economic indicators on:

- Strengths and weaknesses of the national economy;
- Existing social and political factors directly or indirectly affecting economic development;
- Action courses and guidelines in developing a general economic strategy which would, in the long run, lead to stable and rapid economic development.

How can the Report generate changes in both the economic and social spheres of the Republic of Macedonia?

For the Report's recommendations to bring about concrete positive developments, a broad range of stakeholders must be involved in its production. Because the Report resulted from the joint efforts of prominent national and international economy experts and businesspeople who analyzed the situation and offered their opinions and recommendations, this report can lead to:

- Establishment of preconditions to reach general consensus on the principles in building the National Economic Strategy and to define future development guidelines;
- Promotion of a new vision for Macedonian competitiveness;
- Promotion of the importance of the NECC and its role as an advisory body uniting on constructive grounds the representatives of the private, public and civil sectors.

II. Summary

Following an initiative of the NECC, the Republic of Macedonia was included in the WEF Global Competitiveness Report for the first time in 2003/2004. WEF Global Competitiveness Reports are generally accepted as an authoritative comparison of data on competitiveness development and economic growth of the economies accounting for nearly 97% of the world GDP. Therefore, the NECC believes it is crucial to Macedonia to be included in this report and took the steps necessary to accomplish this. NECC continues to administer the business leader survey in Macedonia on behalf of WEF.

Striving to produce a National Competitiveness Report for Macedonia that is as objective as possible, the NECC based its work on the following:

- Analysis of the ranking of the Macedonian economy in the Global Competitiveness Report, and comparisons with the economies in the region and in the European Union (EU);
- Consideration of prominent local and international experts' comments, recommendations and guidelines for competitiveness improvements;
- Incorporation of relevant information on Macedonia's economic competitiveness received from NECC members and from representatives of the active industry clusters and other business and social associations in the Republic of Macedonia.

In the WEF's 2005/2006 *Global Competitiveness Report*, the Republic of Macedonia ranks **85th** in the **Growth Competitiveness Index** ranking of 117 countries. Although this is a nominal drop of one position in comparison with the 2004/2005 rankings, in reality the country has moved up by 6 positions because of the higher number of countries in the more recent rankings. In 2003/2004, 104 countries were ranked while the latest ranking includes 117 countries, and 6 of the 13 new countries included in the WEF 2005/2006 Report rank higher than Macedonia.

The Macedonian economy's competitiveness appears to not have sufficiently improved in the past year (2004). This is likely due to the incomplete achievement of reforms currently being implemented in Macedonia. Thus, while Macedonia's economic position has improved in certain parameters of competitiveness, it has seen a relatively big decline in the rank of certain other parameters. The Macro-economic stability ranks higher due primarily to a combination of monetary, fiscal and income policies implemented in the country. In reality, the only constant improvement in both the value of the index and in the Macedonian economy's competitiveness ranking is to be found in the quality of the macro-economic environment. Therefore, the identified competitive advantages of the Macedonian economy are mostly found in the area of macro-economic stability.

A dramatic fall is seen in the Technology Index, resulting from the failure to take adequate measures to improve the technological readiness of Macedonian businesses in Macedonia at a time when other economies are advancing in this arena. The minimal improvements in the quality and efficiency of the public institutions in the Macedonia are still insufficient to significantly contribute to the total competitiveness of the economy. Consequently, in the group of South East Europe (SEE) economies undergoing

transition, Macedonia ranks higher than Bosnia and Herzegovina and Albania, but lower than Serbia and Monte Negro and much lower than Bulgaria and Croatia in 2005/06.

Key Recommendations

Given the context and assessment described previously, the following basic recommendation is made:

The economic reforms policy of the Republic of Macedonia should balance macro- and micro-economic needs to create an adequate framework on which to build a competitive national economy.

In other words, structural reforms are as important as macro-economic stability. In the context of the EU integration, a policy of adequately sequenced adoption of EU rules and regulations (Aquis Communautaire) is also necessary. In doing this, not only will other structural reforms be accelerated, but the legal framework for doing business in Macedonia will achieve compatibility with the equivalent framework of the EU country-members' economies.

More specific recommendations to improve the Macedonian economy's competitiveness include:

1. Ongoing, intensified structural reforms, especially those in the economic system. These should be implemented in packages and with a faster transfer of authority to those entities coming to the fore with the current process of decentralization;
2. Making the "one-stop-shop"³ system completely functional;
3. Promoting legislative and other benefits to attract foreign investors;
4. Providing incentives (and in some cases, subsidies) for innovation and transfer of technology to enable economic growth and creation of greater competitive advantages at a business-level.
5. Eliminating double taxation in agriculture and adapting regulations related to farming and cattle breeding businesses for an easier and less costly process and procedure for registration and start-up of small farmers' businesses.
6. Allowing VAT return to individual farmers.
7. Stimulating and enabling entry of first-class European and world banks to Macedonia;
8. Implementing a policy that will result in lowering the current interest rates and provide more favorable loans to stimulate economic investments;
9. Forming guarantee and investment funds for easier start-up of small businesses and initiatives in farming and cattle-breeding;

³ Streamlined registration system enabling companies to register in one place hence lowering cost and time

10. Implementing the principles of the Republic of Macedonia Technology Development Policy that are market oriented and focused on firms' innovativeness;
11. Creating conditions for promotion of research and development as the superior generator and instigator of innovation and technology;
12. Strengthening the institutional infrastructure for development of and support to a business environment favoring innovation, providing tax incentives and other benefits to investors that apply new technology and innovation.
13. Supporting transfers of technology and setting up "learning companies";
14. Establishing an annual national innovations award for companies or individuals;
15. Initiating a process that focuses on building a workforce that is educated and trained to meet the needs of Macedonia's businesses, in other words, **integration of education with business needs.**
16. Implementing in full the European credit-transfer system of adjusted higher education; developing proactive curricula; and providing high-quality teachers with international experience and scholarships that contribute to a higher standard for students.
17. Promoting the idea of life-long education through public campaigns directed at business and aimed at raising the companies' awareness of the need and importance of permanent training in acquiring and upgrading of labor skills and knowledge.
18. Enacting regulations that are needed for life-long education that promotes on-the-job training and upgrading professional skills and capabilities.
19. Introducing farmers and cattle-breeders to new technologies and international standards through training and counseling.
20. Implementing a national strategy that offers and promotes significant stimuli and benefits to retain a highly skilled workforce and enable their further development in Macedonia to prevent or reduce the "brain-drain."
21. Implementing the new Labor Relations Law as quickly as possible.
22. Increasing activity on the part of the Socio-Economic Council of Macedonia in achieving greater labor market efficiency.

These recommendations represent a platform from which a constructive dialogue can begin and a broader consensus reached between the public, private and civil sectors of the Macedonian economy.

The NECC, as a tri-partite body uniting the interests of these three key sectors, believes that this National Competitiveness Report will help in the adoption and

understanding of the challenges Macedonia faces and the urgency of the actions that need to be taken to respond to them.

III. WEF Methodology used in producing the Competitiveness Indexes

The World Economic Forum has been measuring and ranking the competitiveness of world economies and producing Competitiveness Reports since 1979. Over the years, the specific methodology used for these analyses has evolved, and since 2001, the WEF has used the Growth Competitiveness Index (GCI) based on a model developed for the WEF by two renowned theoreticians, Jeffrey Sachs and John McArthur.

Research in the field of competitiveness has led the WEF to three basic conclusions regarding the factors affecting the competitiveness of a given country. They are:

1. Economic development is determined by a number of important factors in different areas with the quality of the macro-economic environment, proprietary rights' guarantees and the quality of institutions emerging as the key factors in the development process and in the process of improving the competitiveness of a given economy.

2. Different factors matter differently for different economies, and basically this depends on the stage of development of the economy in question. As a result, in putting together the Competitiveness Index, the WEF classifies the economies into groups of *core innovators* and *non-core innovators*, depending on the number of patented innovations per capita.

3. The intensity of certain factors' impacts varies over time. This trend is brought about by the effects of globalization. Education, the level of knowledge transfer and the level of workforce skills have gained in importance in recent years, in contrast to the level of inflation, for example, which has been losing in importance and thus losing its impact on the total competitiveness of a given economy.

The WEF analyzes competitiveness using several indexes:

- Growth Competitiveness Index
- Business Competitiveness Index
- Global Competitiveness Index

III. 1. Growth Competitiveness Index

In the range of factors accounting for the evolution of the economic growth in an economy, the Growth Competitiveness Index (GCI) identifies three main pillars:

- Quality of the *macroeconomic environment*,
- State of the country's *public institutions*, and
- Level of its *technological readiness*.

These pillars are composed of an adequate number of sub-indexes determined by combining hard data (e.g., university enrollment rates, the state of public finance, the level of penetration of new technologies, such as mobile telephones and the Internet) and data drawn from surveys of leaders of the business community of the country under consideration.

III. 2. Business Competitiveness Index

Most of the discussions in the area of competitiveness still focus on the macro-economic, political, legal and social conditions supporting the successful operation of an economy. A sound fiscal and monetary policy, an efficient legal system, stable democratic institutions and development in the area of social conditions are the factors with considerable impact on the economy's competitiveness. Although indispensable, these factors are not sufficient because they do not create wealth in their own right. Wealth is created at a micro level, i.e. at a firm level, depends on the firms' capacities and capabilities, as well as on the quality of the business environment within which the firms compete. This is in line with the NECC use of the definition of competitiveness.

The Business Competitiveness Index (BCI) rankings and evaluations are based on data gathered in surveys conducted among business community leaders (Executive Opinion Survey). The survey questions aim to provide information that would help to determine the sophistication of companies' operations and the strategies applied in the firms being surveyed, and to define the quality of the business environment.

III. 3. Global Competitiveness Index

The Global Competitiveness Index was used for the first time in the 2004/2005 ranking. This Index was developed in response to a need for a new tool to better reflect changes in the global economy and the relative importance of the key factors, simultaneously in a number of economies with considerable institutional and structural differences. While providing a quantified framework to analyze the key determinants of competitiveness, the Growth Competitiveness Index does not consider certain equally important factors such as labor market rigidity (insufficient flexibility), financial institutions' (lack of) sophistication and their capabilities, unnecessary bureaucratic red-tape, (non)existence of an adequate level of domestic market competitiveness.

The Global Competitiveness Index is based on the following principles:

- Principle 1. Productivity is a complex of 9 pillars of competitiveness, measured separately;
- Principle 2. Every economy experiences development stages in the process of building better competitiveness;
- Principle 3: Transition from one development stage into another is particularly important.

Principle 1. Productivity is a complex of 9 pillars that drive or create the competitiveness of a given economy. **The Index is put together through an analysis of the data on:**

1. Institutions (their quality)
2. Infrastructure (its quality)
3. Macro economy (the extent to which the macro-economic stability contributes to the development of an economy's competitiveness)

4. Health and primary education (as instigators of an economy's competitiveness)
5. Higher education and training (as instigators of an economy's competitiveness)
6. Market efficiency
7. Technological readiness
8. Business sophistication
9. Innovations

Principle 2. Development stages in any economy's competitiveness

The second principle of the Global Competitiveness Index starts from the fact that economic development is a dynamic process of successful improvements in the course of which economies find sophisticated ways of production and competition. In other words, the process of economic development takes place in stages.

According to the WEF, the process of development encompasses three stages:

- Factor-driven stage, a stage of competitiveness based on the existence and extensive exploitation of the basic factors of production such as natural resources, low-cost labor etc.;
- Efficiency-driven stage, based on efficiency of private business as well of the public institutions; and
- Innovation-driven stage where innovating and innovations represent the basic source of new competitive advantages.

The first, factor-driven stage is where competitive advantages are drawn from the abundance of production factors, which are low in cost precisely because they are abundant. In this initial stage economies share certain basic features, such as:

- Relatively strong institutions
- Adequate infrastructure
- Basic human potential
- Macro-economic stability
- General personal safety.

It is important to note that success and competitive advantages achieved in the development of competitiveness in this stage are lost during the transition into the next stage of competitiveness development.

In the second, efficiency-driven stage, the main sources of competitiveness are the efficient practices on the part of businesses in producing goods and services and efficiency on the part of institutions. Product quality, rather than low price, and production process efficiency define firms' productivity. To achieve this, the economies need to improve the efficiency of goods, labor and financial markets. In addition, they need to have a developed education and workforce training system as well as access to latest technologies (including technology transfers).

The innovation-driven stage of competitiveness is the third stage in the process of competitiveness development. This stage is entered at that critical moment when successful companies can no longer compete either on price (competitiveness based on low costs) or on quality alone. Their success in production of goods and services of an equal quality leads to a proportional drop in their prices, thus impeding their development. This is the moment when they need to turn to production of unique,

innovative products, introducing and applying newly developed methods of production and operational organization. In this stage businesses need to increase their sophistication through clustering and implementation of the most advanced operations in production processes.

The Global Competitiveness Index takes into account the stages economies are in by weighting the three pillars (Table 1).

Table 1: Weights of the three main groups of pillars at each stage of development

Weight	Basic requirements	Efficiency enhancers	Innovation and sophistication factors
Basic factors-driven stage	50%	40%	10%
Demands-driven / Efficiency-driven stage	40%	50%	10%
Demands-driven/ Innovation-driven stage	30%	40%	30%

Principle 3: Transition

The third principle in the base of the new Global Competitiveness Index takes into account how a given economy develops, moving from one stage into another. The values of each of the sub-indexes change as the economy develops. Hence the index identifies 5 groups of economies: 3 groups in the three stages described previously, and economies making a transition from stage 1 into stage 2 and those moving from stage 2 to stage 3.

In practice, the ranking of the economies is done as follows:

1. Countries with a GDP of less than US\$2,000 per capita belong to the group of economies in the factor-driven stage, a stage of competitiveness based on the existence and exploitation of abundant production factors.
2. Countries with a GDP between US\$3,000 and 9,000 per capita belong to the group of economies in the competitiveness stage driven by efficiency.
3. Countries with a GDP of more than US\$17,000 per capita belong to the group of economies in competitiveness stage driven by innovations.

Those economies with GDP between US\$2,000 and 3,000 or between US\$9,000 and 17,000 are in a transition, from stages 1 to 2 or from stages 2 to 3 respectively. According to this categorization, the Macedonian economy is in the stage of transition from stage 1 (competitiveness based on the existence and exploitation of abundant production factors) to stage 2 (competitiveness based on efficiency).

IV. National Competitiveness Report –Status

In 2003, following an initiative from the National Entrepreneurship and Competitiveness Council, the Republic of Macedonia was for the first time included in the WEF Global Competitiveness Report. This Report is generally accepted as an authoritative comparison of data on the development of competitiveness and economic growth of the economies accounting for 97% of the world GDP.

In its endeavors to produce a report that would be as objective as possible, the National Entrepreneurship and Competitiveness Council based its work on the following:

- Analysis of the Macedonian economy's ranking in the WEF Global Competitiveness Report and comparisons of the Macedonian economy with the economies of the countries in the region and in the EU;
- Consideration of comments, recommendations and guidelines for competitiveness improvements from prominent local and international experts;
- Incorporation of relevant information received from NECC members and from representatives of the five active industry clusters as well as from other business and social associations.

IV. 1. Comparative values of the Growth Competitiveness Index (GCI)

2003/04			2004/05			2005/06		
	Rank	Index		Rank	Index		Rank	Index
GCI	81	3.22	GCI	84	3.34	GCI	85	3.26
Technology	70	3.53	Technology	76	3.26	Technology	91	2.73
Public institutions	93	3.11	Public institutions	92	3.41	Public institutions	96	3.47
Macro-economic environment	80	3.01	Macro-economic environment	77	3.37	Macro-economic environment	75	3.58

The Republic of Macedonia ranked **85th** in the 2005/2006 **Growth Competitiveness Index** ranking of 117 countries. It is a nominal drop in comparison with the 2004/2005 rankings. In reality, the country ranked higher by 6 positions because the 2004/2005 ranking covered 104 economies, whereas the 2005/2006 ranking measured 117 economies. Six of the 13 newly included economies rank better than Macedonia.

The sub-indexes comprising the GCI show a trend of dramatic fall in the technology development rank and value.

Over the past year public institutions have shown some improvement in the index value (3.41 to 3.47), but simultaneously the rank falls (from position 92 to 96) as a result of a general improvement of the public institutions' efficiency in most of the countries ranked.

The only constant improvement in the index value as well as in the ranking is to be found in the area of macro-economic environment. Consequently, most of the competitive

advantages of the Macedonian economy are in the area of macro-economic environment, i.e. stability. Most of the weaknesses are related to factors affecting the technology index.

A comparison with the countries in this region undergoing transition shows that in 2004/05 the Republic of Macedonia ranked higher than Bosnia and Herzegovina and Albania but lower than Serbia and Monte Negro and much lower than Bulgaria and Croatia.

IV. 2. Strengths and weaknesses according to the Growth Competitiveness Index (GCI)

Comparison of strengths and weaknesses according to the GCI

Strengths	Rank	Weaknesses	Rank
Macro-economic environment		Macro-economic environment	
Inflation 2004	5	Expected recession	113
Government debt	20	Credit availability	97
Government surplus/deficit 2004	28	National savings rate, 2004	90
Technology		Wastefulness of government spending	84
Telephone lines, 2003	47	Credit rating 2004	81
		Interest rates 2004	65
		Real exchange rate 2004	57
		Public institutions	
		Organized crime	114
		Judicial independence	104
		Property rights	102
		Irregular payments in exports and imports	88
		Irregular payments of taxes	88
		Favoritism in decisions of government officials	76
		Irregular payments in public services	63
		Technology	
		Firm level technology absorption	110
		Government success in ICT [promotion	108
		Technological readiness	107
		FDI and technology transfer	106
		Foreign technology licensing prevalence	105
		Quality of competitiveness in the ISP sector	105
		Government priorities in ICT	105
		Internet access in schools	90
		Company spending on R&D	85
		ICT related laws	81
		Industrial patents 2004	81
		Universities/industries cooperation in research	77
		Internet users, 2003	71
		Gross tertiary enrollment	65
		Internet hosts, 2003	64

IV. 3. Business Competitiveness Index (BCI) Comparative values

In the 2005/06 micro-level Business Competitiveness Index, Macedonia was ranked at the same position as the previous year, which is 83rd, but with a minimal decrease in the index value. This decrease is due to deterioration in the sophistication of the operations of Macedonian companies and their applied business strategies. Certain improvements are noted in the quality of the business environment.

BCI Comparative values			
2004/2005		2005/2006	
	Rank		Rank
BCI	83	BCI	83
Companies operation and strategy sophistication	84	Companies operation and strategy sophistication	89
Quality of national business environment	82	Quality of national business environment	83

IV. 4. Strengths and weaknesses according to the Business Competitiveness Index

According to the BCI, weaknesses in companies' sophistication include a low level of professional management, dependence on technology transfer and degree of orientation to customers needs. According to domestic business leaders, dependence on domestic innovations in developing new products and services should be taken as a competitive advantage.

The availability of capital for investments, scientists and engineers, and the quality of the education system are seen as strengths of the business environment. The rigidity of the new law on environmental protection and insufficient competition in the domestic market are the greatest weaknesses.

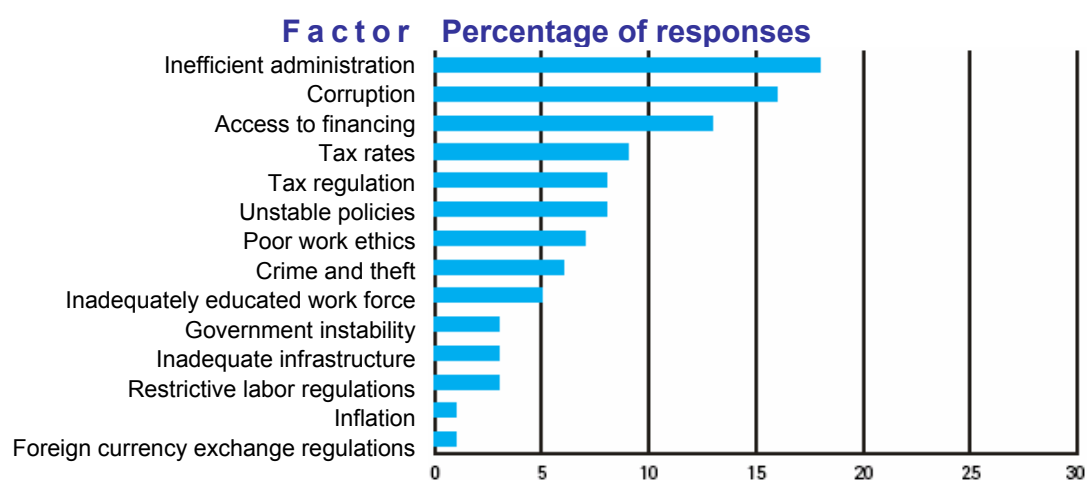
Comparison of strengths and weaknesses according to the BCI

Strengths	Rank	Weaknesses	Rank
<i>Company operation and strategy sophistication</i>		<i>Company operation and strategy sophistication</i>	
Innovation capacity	55	Dependence on professional management	103
Control of international distribution	65	Prevalence of foreign technology licensing	100
Willingness to delegate authority	66	Degree of customer orientation	96
<i>Quality of national business environment</i>		<i>Quality of national business environment</i>	
Venture capital availability	41	Strictness of environment protection laws	102
Availability of scientists and engineers	44	Intensity of local competition	101
Quality of the education system	46	Ports infrastructure	100

A comparison of rankings in this Index shows that in its geographic region, Macedonia ranks higher than Serbia and Monte Negro, Bosnia and Herzegovina and Albania, and lower than Bulgaria and Croatia.

IV. 5. Factors affecting business

The most problematic factors for doing business in Macedonia remain unchanged from 2004/2005 – inefficient administration, corruption and tax regulations (see table below)



As a general conclusion, the Macedonian economy's competitiveness has not improved over the past year. On the one hand, there is the increased and strengthened macro-economic stability of the country, primarily due to its fiscal and monetary policies. On the other hand, there is the dramatic fall in the Technology index, resulting from failure to take adequate measures to improve technological readiness at a time when other countries are advancing in this area. Public institutions manifest minimal improvements in their efficiency, which are still not enough to affect the overall competitiveness of the country.

IV. 6. Global Competitiveness Index

According to the indicator of development stages, **Macedonia is in transition from stage 1 to stage 2**. To highlight the factors influencing the positive transition of the country, special attention needs to be paid to the following pillars:

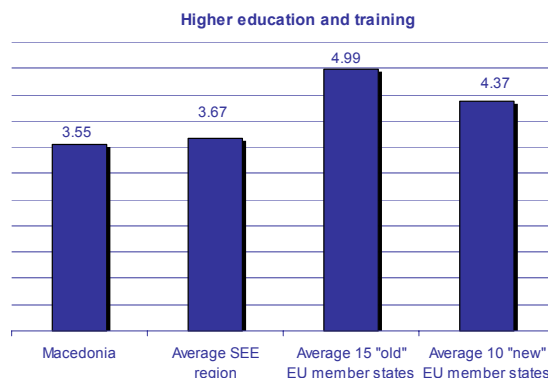
- Higher education and training
- Market efficiency
- Technological readiness.

IV. 6. 1. Pillar : Higher education and training

The quality and quantity of education are critical to the competitiveness of a given economy. One of the characteristics of globalization is the need to adapt more quickly to new technologies; this requires well educated employees. At the same time, on-the-job training is an important method of upgrading employees' capabilities. Companies that invest in what has been known as life-long education, those that update and improve the skill level of their human resources, will sooner and more easily adapt to the fast pace of change.

	Index value	Rank
Higher education and training	3.91	62
1. <u>Quantity of education</u>		
▪ Gross secondary enrollment	3.74	61
▪ Gross tertiary enrollment	2.87	65
2. <u>Quality of education system</u>		
▪ Quality of education system	3.90	46
▪ Quality of math and science education	4.30	50
▪ Quality of management schools	3.60	71
3. <u>On-the-job training</u>		
▪ Local availability of specialized research and training services	3.50	70
▪ Extent of staff training	3.30	74

Macedonia ranks 62nd in this pillar, i.e. slightly lower than the middle of the list of countries included in the ranking. Index values and ranking according to the factors constituting this pillar are given in the following table:



Commentary

In the category of quality and quantity of education, domestic business leaders believe that Macedonia lags most in the quality of management education. Both indexes relating to on-the-job training are low, which is due to the absence of world-renowned research and training institutions as well as to the low level of private companies' investments in training.

In the context of the region, all countries with the exception of Bosnia and Herzegovina rank higher than Macedonia in this index. But the difference is small as shown in the chart above.

In Macedonia's transition period, numerous economic, social and security aspects have over shadowed the strategic role of education. To overcome this situation, some reforms were initiated within the general policy aimed at faster adjustment of the education system to the European standards and at achievement of various education goals.

The WEF Report results and the comparison with education systems of other countries in the region and in the EU indicate insufficient communication between the various degrees in the education system and insufficient communication and cooperation

between the education system and businesses. Macedonia lacks a coordinated approach to education that would elevate the level of importance of this factor in the efforts towards improved competitiveness.

In addition, human resources skills, on-the-job training and professional upgrading in Macedonia compares poorly with the region and EU. Macedonia also ranks lower in this index even in comparison with the majority of the countries undergoing transition. This is due to the inadequacy of the education and training systems, as well as to the employees' outdated knowledge and skills.

All this means that Macedonia does not have adequate human resources able to create and absorb the innovations required for new technological development. The most important role in turning these obstacles into new possibilities of development is to be played by reforms in the education system and by the implementation of the already-adopted **Human Resources Development Policy**.

Human capital is the greatest wealth of a country. In a changing global economy, human capital development is given utmost priority. Macedonia has potential, but requires a systemic approach that would lead to the promotion and incorporation of human capital as a factor of growth.

Recommendations

Economic development requires education that produces creative individuals ready for "life-long learning processes." This workforce would be the bearer of changes aimed at future development of a knowledge-based economy.

In this context recommendations include:

1. Adequate regulations on life-long education are required for on-the-job training and professional skills and capabilities improvement;
2. A process to develop education programs that will provide a workforce to meet the needs of the businesses. This would mean private schools in secondary and tertiary education, increased number of students, resulting in an increased offer of workforce in the area of information processing and technology transfers. This workforce is of particular importance in the establishment of technology-based companies, i.e. for the structural shift to areas essential to the future development of a knowledge-based economy. To achieve all this it is necessary to implement the European credit-transfer system of adjusted education, develop pro-active curricula and high-quality teaching staff with international experience, scholarships, students' benefits that will raise their standard etc.
3. Introducing farmers and cattle-breeders to new technologies and international standards through training and counseling.
4. The idea of life-long education should be promoted through public campaigns directed at business and aimed at raising the companies'

awareness of the need and importance of permanent training in acquiring and upgrading of labor skills and knowledge.

IV. 6. 2. Pillar : Market efficiency

Market operational efficiency is critical for an economy's productivity and competitiveness as it ensures proper allocation of economic factors to their best uses. Three vital types of market efficiency are measured in the Global Competitiveness Index: goods' markets, labor markets and financial markets. According to the WEF Global Competitiveness Index, Macedonia ranks 97th in market efficiency.

Goods' markets

Economies with efficient goods' markets produce the right mix of products and services which are, in turn, defined by demand and supply. This also ensures that these goods and services can be most effectively traded in the economy. One of the basic conditions for market efficiency is healthy market competition, in both domestic and foreign markets. Healthy competition creates an environment for improvements in the efficiency of companies and leads to a natural selection of the most productive companies. And to ensure the best possible environment for the exchange of goods and services, the environment must have a minimum of impediments to business activity from government intervention.

The table below gives the indicators, i.e. the factors in this Index, results in ranking and in the values of the sub-indexes for Macedonia.

	Index value	Rank
Market efficiency	3.47	97
4. Market efficiency – Goods market		
▪ <u>Distortion</u>		
▪ Agricultural policy costs	3.40	72
▪ Efficiency of legal framework	2.40	105
▪ Extent and effect of taxation	2.50	97
▪ Number of procedures to start a business	3.12	84
▪ Time required to start a business	5.17	70
▪ <u>Competition</u>		
▪ Domestic competition		
Intensity of local competition	3.70	106
Effectiveness of anti-trust policy	2.90	99
▪ Foreign competition		
Imports	2.74	25
Prevalence of trade barriers	4.00	84
Foreign ownership restrictions	4.00	105
<u>Size</u>		
Foreign markets (exports)	2.02	63

Commentary

The table shows that the factors ranked lowest are the legal framework that should ensure favorable business environment, the intensity of domestic competition and

foreign ownership restrictions. The effectiveness of anti-trust policy and the extent and effect of taxation also rank low.

According to the domestic business community survey, competition in the domestic market is limited and marked by rare changes in the leading positions held by certain companies in given industries in the domestic market.

The legal framework through which the private sector solves its disputes and confirms the appropriateness of government regulations and activities is also assessed as inefficient and open to manipulation. In addition, anti-trust policy is assessed as negligent and inefficient in the promotion of competitiveness, and the extent of taxation as inappropriate in stimulating investments and creating new jobs.

Recommendations

1. Ongoing, intensified structural reforms, especially those in the economic system, which should be implemented in packages and with a faster transfer of authority to those entities coming to the fore with the current process of decentralization;
2. The one-stop-shop system made completely functional and utilized;
3. Promotion of legislative and other benefits to attract foreign investors;
4. Providing incentives (and in some cases, subsidies) for innovation and transfer of technology to enable economic growth and creation of greater competitive advantages at a business-level.
5. Eliminating double taxation in agriculture and adapting regulations related to the farming and cattle breeding businesses for an easier and less costly process and procedure for registration and start-up of small farmers' businesses.
6. Allowing VAT return to individual farmers.

Labor market

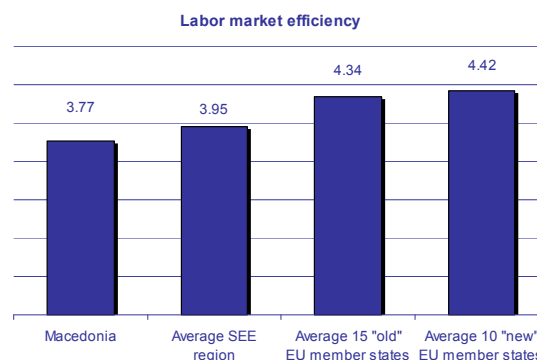
In a productive economy, workers are allocated properly to their best use and are adequately paid for the work done. They are provided with incentives to give their best effort in their jobs. In addition, labor markets must have the flexibility to shift workers from one economic activity to another quickly and to allow for wage fluctuations without social disruption.

The Global Competitiveness Index states the following situation with regard to the labor market efficiency in Macedonia:

	Index value	Rank
Market efficiency – Labor market		
<u>1. Flexibility</u>		
▪ Hiring and firing practices	3.30	84
▪ Flexibility of wage determination	5.50	40
▪ Cooperation in labor/employer relations	3.70	102
<u>2. Efficiency</u>		
▪ Reliance on professional management	3.20	109
▪ Pay and productivity	3.80	64
▪ Brain drain	2.10	109
▪ Private sector employment of women	4.40	79

Commentary

The most problematic issues here are the extensive brain-drain, poor cooperation between employers and unions and lack of good management. Management positions are held by managers appointed to those positions not because of their superior skills but because of their family ties. This is a situation that could be linked to the comment that the brain-drain reduces the number of highly skilled managers available. On the other hand, the flexibility of wage determination and the relationship between pay and productivity rank best and represent competitive advantages.



Recommendations

1. Implementing a national strategy that would offer and promote significant stimuli and benefits to retain a highly skilled workforce and enable their further development in Macedonia to prevent or reduce the “brain-drain.”
2. Implementing the new Labor Relations Law as quickly as possible.
3. Increasing activity on the part of the Socio-Economic Council of Macedonia in achieving greater labor market efficiency.

Financial market

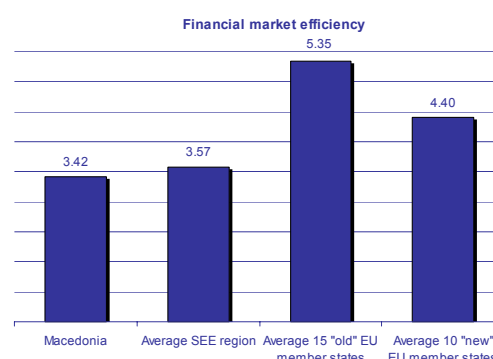
Financial markets strongly influence an economy's productivity through investment efficiency, i.e. through effective allocation of financial resources. Most critical to productivity are business investments. Economies require sophisticated financial markets that can make capital available for investments in the private sector from sources such as loans from a sound banking sector, well-regulated securities exchanges and venture capital.

The Global Competitiveness Index gives the following rankings of Macedonia's financial markets' efficiency:

	Index value	Rank
Market efficiency - Financial market		
1. <u>Sophistication and openness</u>		
▪ Financial market sophistication	2.80	90
▪ Ease of access to loans	2.40	90
▪ Venture capital availability	3.50	42
▪ Soundness of banks	4.20	102
▪ Local equity market access	4.20	79

Commentary

There appears to be a discrepancy between the real situation in Macedonia's financial markets and the results in the chart above. This is especially true in the case of the ranking of the banks' soundness and of the very good ranking of venture capital availability. These are in sharp contrast to the actual situation in the country where a venture capital market is virtually non-existent. The former misconception is due to a timing factor, i.e. specific negative developments in the banking sector at the time of the survey. The latter misconception can be assumed to result from a lack of understanding of the concept of venture capital.



Recommendations

1. Stimulating and enabling entry of first-class European and world banks to Macedonia;
2. Implementing a policy that will result in lowering the current interest rates and provide more favorable loans to stimulate economic investments;
3. Forming guarantee and investment funds for easier start-up of small businesses and initiatives in farming and cattle-breeding;
4. Activating the domestic capital market as a factor stimulating the transition of the banking system from a rigid service into an active supporter of development and investment under realistically acceptable conditions..

IV. 6. 3. Pillar: Technological readiness

Technology has become a central and most important element in today's knowledge-based global economy, affecting the range, quality and price of goods and services produced in and ultimately exported by a country. In this sense the degree to which a country can sustain rates of growth and productivity depends more and more on its

technological readiness and on whether, and to what extent, it can benefit from new technologies, whether developed internally or imported.

Technological readiness specifically relates to those factors that facilitate and enable the technological capacity of a country. This includes the general availability of information technology and the penetration rate of information and communication technologies (ICT). These tools are seen as critical indicators of the overall technological readiness of a country. ICT development and use are critical not only for the establishment of an effective and rapid communication system but also in providing an efficient infrastructure for commercial transactions.

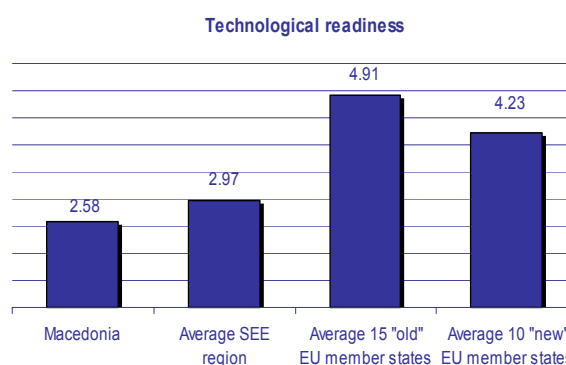
The Global Competitiveness Index shows the following ranking of Macedonia with regard to its technological readiness:

	Index value	Rank
1. Technological readiness	2.58	88
▪ Technological readiness	2.20	107
▪ Firm-level technology absorption	3.10	110
▪ Laws relating to ICT	3.00	81
▪ FDI and technology transfer	3.90	106
▪ Cellular telephones		
▪ Internet users	2.87	51
▪ Personal computers	1.53	71
	1.45	61

Commentary

Macedonia lags behind in all elements except cellular phones and personal computers. The low degree of technological readiness, poor firm-level technology absorption and the low level of FDI that would transfer technology have the lowest values and ranks. An additional problem is the absence of adequate legal regulations on ICT (e.g., e-trade, digital signature, consumer protection, intellectual property rights).

This chart shows that Macedonia and all of the SEE countries lag the new EU member countries from Central Europe. This means that the region's technological readiness as a whole is very poor. A deeper analysis of the differences between Macedonia and other SEE and EU countries shows that the divergence is highest in number of Internet users, personal computers and cellular phones, and in firm-level absorption of technology. Interestingly the new EU members rank higher in FDI and transfer of new technologies than the older 15 country-members.



Technological readiness is closely linked to innovation. These factors emphasize the importance of technology in overall national competitiveness. This is especially true in

the case of the availability of technologies in a given economy regardless of their origin and the country's potential for innovation, i.e. its capacity to generate new technologies.

A deeper look shows that R&D activity, which generates technological development, is undergoing development stages in Macedonia along with the entire society. It has still not been subjected to the reform processes leading to faster integration into the European system. This is one of the reasons for its insufficient participation in the EU research projects that would have direct impact in the promotion of technology and knowledge.

Furthermore, firm-level innovative production ranks low and is far behind that in the advanced countries that are undergoing transition. The negative characteristics of the companies' capabilities for innovation are reflected in the low number of registered patents and innovations directly applied in the economy.

Nevertheless, Macedonia has the workforce necessary to increase innovative production. However, the workforce is not sufficiently motivated, lacks creative focus on specific projects and does not develop cooperation with foreign partners. As a result, the innovative production on the part of the public sector research institutions as well as on the part of the companies is far below their human and professional potentials.

Recommendations

1. Implement the principles of the Republic of Macedonia Technology Development Policy that are market oriented and focused on firms' innovativeness;
2. Create conditions for promotion of research and development as the superior generator and instigator of innovation and technology;
3. Strengthen the institutional infrastructure for development of and support to a business environment favoring innovation, providing tax incentives and other benefits to investors that apply new technology and innovation.
4. Support transfers of technology and setting up "learning companies";
5. Establish an annual national innovations award for companies or individuals;
6. Introduce and modernize the statistical system to be used in the studies of the characteristics of the knowledge-based economy.

V. Conclusions

This Report should be a platform from which to open a constructive dialogue and to establish a broader consensus of all participants – public, private and civic sectors-- about Macedonia's economic development.

The NECC, as a tri-partite body uniting these sectors, offers this first National Competitiveness Report to a broader expert and political audience for debate aimed at defining future courses of action.

We believe that this document will result in better acceptance and understanding of the challenges facing the Republic of Macedonia and the urgency of the actions necessary to overcome these challenges.

The NECC sincerely believes that through this report based on facts, concrete indicators and guidelines, Macedonia can achieve sustainable improvements in production, innovation, employment and productivity. And further the NECC believes that the result will be an improved standard of living for all citizens of Macedonia.

The objective of the National Entrepreneurship and Competitiveness Council is to create conditions that would help Macedonia move from its current position and become an efficiency-driven economy. (Macedonia is in a transitional stage between factor-driven, i.e. a country with a GDP per capita up to US\$2.000. and efficiency-driven, i.e. a country with a GDP per capita between US\$3.000 and 9.000.)

VI. Annex: Growth Competitiveness Index Rankings and comparisons

Table 2: Growth Competitiveness Index rankings and 2004 comparisons

Country	GCI 2005 rank	GCI 2005 score	GCI 2004 rank	Country	GCI 2005 rank	GCI 2005 score	GCI 2004 rank
Finland	1	5.94	1	Tanzania	71	3.57	82
United States	2	5.81	2	Argentina	72	3.56	74
Sweden	3	5.65	3	Panama	73	3.55	58
Denmark	4	5.65	5	Indonesia	74	3.53	68
Taiwan	5	5.59	4	Russian Federation	75	3.53	70
Singapore	6	5.49	7	Morocco	76	3.49	56
Iceland	7	5.48	10	Philippines	77	3.47	76
Switzerland	8	5.46	8	Algeria	78	3.46	71
Norway	9	5.43	6	Armenia	79	3.44	—
Australia	10	5.21	14	Serbia and Montenegro	80	3.38	89
Netherlands	11	5.21	12	Vietnam	81	3.37	77
Japan	12	5.19	9	Moldova	82	3.37	—
United Kingdom	13	5.11	11	Pakistan	83	3.33	91
Canada	14	5.10	15	Ukraine	84	3.30	86
Germany	15	5.10	13	Macedonia, FYR	85	3.26	84
New Zealand	16	5.09	18	Georgia	86	3.25	94
Korea, Rep.	17	5.07	29	Uganda	87	3.24	79
United Arab Emirates	18	4.99	16	Nigeria	88	3.23	93
Qatar	19	4.97	—	Venezuela	89	3.22	85
Estonia	20	4.95	20	Mali	90	3.22	88
Austria	21	4.95	17	Mozambique	91	3.19	92
Portugal	22	4.91	24	Kenya	92	3.19	78
Chile	23	4.91	22	Honduras	93	3.18	97
Malaysia	24	4.90	31	Gambia	94	3.18	75
Luxembourg	25	4.90	26	Bosnia and Herzegovina	95	3.17	81
Ireland	26	4.86	30	Mongolia	96	3.16	—
Israel	27	4.84	19	Guatemala	97	3.12	80
Hong Kong SAR	28	4.83	21	Sri Lanka	98	3.10	73
Spain	29	4.80	23	Nicaragua	99	3.08	95
France	30	4.78	27	Albania	100	3.07	—
Belgium	31	4.63	25	Bolivia	101	3.06	98
Slovenia	32	4.59	33	Dominican Republic	102	3.05	72
Kuwait	33	4.58	—	Ecuador	103	3.01	90
Cyprus	34	4.54	38	Tajikistan	104	3.01	—
Malta	35	4.54	32	Malawi	105	3.00	87
Thailand	36	4.50	34	Ethiopia	106	3.00	101
Bahrain	37	4.48	36	Madagascar	107	2.95	96
Czech Republic	38	4.42	40	East Timor	108	2.93	—
Hungary	39	4.38	39	Zimbabwe	109	2.89	99
Tunisia	40	4.32	42	Bangladesh	110	2.86	102
Slovak Republic	41	4.31	43	Cameroon	111	2.84	—
South Africa	42	4.31	41	Cambodia	112	2.82	—
Lithuania	43	4.30	36	Paraguay	113	2.80	100
Latvia	44	4.29	44	Benin	114	2.74	—
Jordan	45	4.28	35	Guyana	115	2.73	—
Greece	46	4.26	37	Kyrgyz Republic	116	2.62	—
Italy	47	4.21	47	Chad	117	2.37	104
Botswana	48	4.21	45				
China	49	4.07	46				
India	50	4.04	55				
Poland	51	4.00	60				
Mauritius	52	4.00	49				
Egypt	53	3.96	62				
Uruguay	54	3.93	54				
Mexico	55	3.92	48				
El Salvador	56	3.86	53				
Colombia	57	3.84	64				
Bulgaria	58	3.83	59				
Ghana	59	3.82	68				
Trinidad and Tobago	60	3.81	51				
Kazakhstan	61	3.77	—				
Croatia	62	3.74	61				
Namibia	63	3.72	52				
Costa Rica	64	3.72	50				
Brazil	65	3.69	57				
Turkey	66	3.68	66				
Romania	67	3.67	63				
Peru	68	3.66	67				
Azerbaijan	69	3.64	—				
Jamaica	70	3.64	85				

(cont'd.)

Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking
United States	1	1	2
Finland	2	8	1
Germany	3	2	4
Denmark	4	4	3
Singapore	5	14	5
United Kingdom	6	6	6
Switzerland	7	5	7
Japan	8	3	10
Netherlands	9	8	8
Austria	10	11	9
France	11	10	11
Sweden	12	7	14
Canada	13	18	13
Taiwan	14	13	15
Australia	15	23	12
Belgium	16	12	17
Iceland	17	15	18
New Zealand	18	21	16
Ireland	19	16	20
Hong Kong SAR	20	20	19
Norway	21	22	21
Israel	22	19	22
Malaysia	23	24	23
Korea, Rep.	24	17	24
Spain	25	25	26
Estonia	26	33	25
Czech Republic	27	28	27
South Africa	28	26	30
Chile	29	31	29
Portugal	30	30	28
India	31	36	31
Slovenia	32	27	35
United Arab Emirates	33	38	33
Hungary	34	40	32
Tunisia	35	46	34
Cyprus	36	48	36
Thailand	37	35	37
Italy	38	28	39
Slovak Republic	39	47	38
Greece	40	41	40
Lithuania	41	41	41
Poland	42	43	46
Jordan	43	59	42
Qatar	44	64	43
Ghana	45	56	47
Malta	46	61	44
Kuwait	47	63	45
Latvia	48	51	48
Brazil	49	32	52
Costa Rica	50	34	53
Turkey	51	38	51
Mauritius	52	45	49
Jamaica	53	54	54
Bahrain	54	67	55
Botswana	55	76	50
Colombia	56	49	57
China	57	53	58
El Salvador	58	57	56
Indonesia	59	58	59
Mexico	60	55	62
Panama	61	37	68
Kazakhstan	62	71	60
Croatia	63	76	61
Argentina	64	52	64
Trinidad and Tobago	65	62	63
Pakistan	66	68	65
Romania	67	89	67
Kenya	68	60	69
Philippines	69	44	78
Uruguay	70	79	66

Country	BCI ranking	Company operations and strategy ranking	Quality of the national business environment ranking
Egypt	71	58	74
Sri Lanka	72	73	73
Morocco	73	75	72
Russian Federation	74	77	76
Ukraine	75	71	75
Nigeria	76	65	79
Azerbaijan	77	74	68
Bulgaria	78	82	71
Morocco	79	66	75
Vietnam	80	81	77
Peru	81	68	82
Tanzania	82	93	81
Macedonia, FYR	83	89	83
Zimbabwe	84	79	84
Uganda*	85	91	87
Serbia and Montenegro	86	106	86
Mali*	87	109	85
Armenia	88	87	96
Cameroon*	89	84	92
Gambia	90	130	89
Malawi	91	86	93
Venezuela	92	65	97
Moldova	93	98	94
Bosnia and Herzegovina	94	101	91
Algeria	95	111	88
Georgia	96	94	95
Madagascar	97	102	96
Mozambique	98	97	99
Burkina Faso*	99	106	98
Bangladesh	100	96	101
Dominican Republic	101	88	103
Tajikistan	102	107	100
Guatemala	103	83	104
Mongolia	104	98	102
Honduras	105	95	105
Nicaragua	106	110	106
Ecuador	107	96	108
Kyrgyz Republic	108	92	111
Cambodia	109	103	107
Guyana	110	105	109
Ethiopia	111	113	110
Albania	112	104	113
Bolivia	113	115	112
Paraguay	114	112	114
East Timor*	115	114	115
Chad*	116	116	116

* Survey data for these countries have high within-country variance; until the reliability of survey responses improves with future educational efforts and improved sampling in these countries, their rankings should be interpreted with caution.

(cont'd.)

APPENDIX B



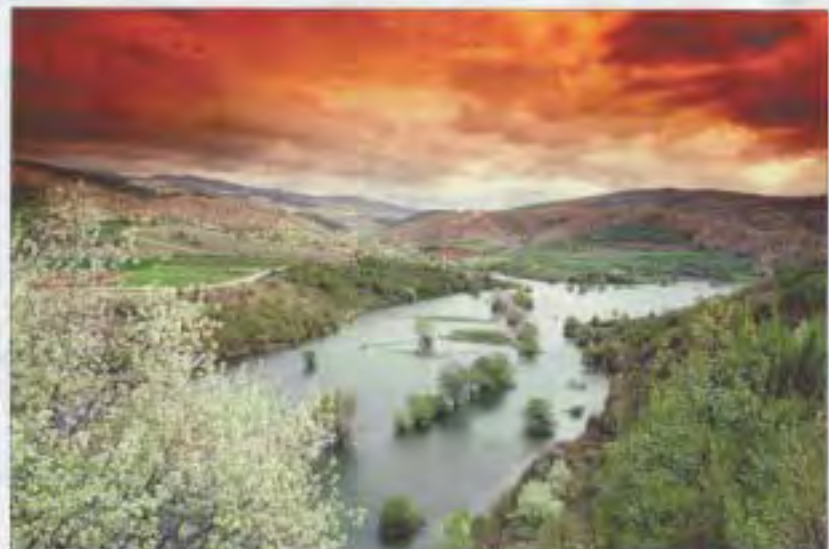
Macedonia, former Yugoslav Republic of, is a country rich in natural beauty, history and archaeology, while its people are open and welcoming. Reg Butler visits a nation developing a new tourism strategy in a bid to tempt back tourists.

Until the formal end of Yugoslavia in 1991, the Republic of Macedonia was a flourishing tourist destination, with visitors arriving in their thousands from all over the world. Since then, however, the country has been largely forgotten, with only a few visitors arriving each year.

The country's natural beauty, its rich history and its people are open and welcoming. Reg Butler visits a nation developing a new tourism strategy in a bid to tempt back tourists.

A country of potential

There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.



Macedonia makes a comeback

There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.

There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.



There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.

Finding alternative routes

There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.

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There is a lot of potential in Macedonia, a country of 2,000 years of history and 13 million people. It is a country of potential, a country of potential.



Robert H. Smith, a contractor, introduced his new reality through the West Village of Denver last year, and he is now working on the new building in the city. He is now working on the new building in the city. He is now working on the new building in the city.

[illegible]

Somerville, later Prolog, is one of our most fertile regions in Europe, with fine production. Our knowledge now makes us feel confident, thanks to the help of Gustav Groll, that in the future we will be able to do the same, and indeed to do it.



1000



4. Taxons extending to land to the northeast present a similar pattern. Species of *Thalassia* found near the coast of Georgia, such as *Thalassia testudinum* in Florida, commonly are found in the mid-Atlantic States. However, and with *T. testudinum* and *Thalassia* spp.

APPENDIX C



senschaftskellerei eine um 15% geringere Erntemenge als 2004. Ist aber ebenfalls mit der Traubenqualität sehr zufrieden und zeigt sich zuversichtlich, dass die Preise trotz des geringeren Erntevolumens stabil bleiben. Die Walliser Kellerei verarbeitet den Ertrag von rund 1.200 ha Rebfläche und erzeugt durchschnittlich 10 Mio. l Wein im Jahr.

Griechenland

Für die Teilnahme an der Fußball-Weltmeisterschaft hat es nicht gereicht in Griechenland, wohl aber für den dritten ausgezeichneten Jahrgang in Folge. Die Menge dürfte etwas unter dem Mittel der letzten Jahre liegen (3,5 Mio. hl). Andauernde Regenfälle im Frühjahr sorgten für gute Feuchtigkeitsvorräte. Der Sommer war zwar sonnereich, aber nicht „hitzig“, so dass sich reichlich Aroma- und Geschmacksstoffe bilden konnten. Späte Regenfälle im Herbst konnten keinen nennenswerten Schaden mehr anrichten. „Meine Lieferanten melden wenig Ertrag, aber überdurchschnittliche Qualität“, berichtet Christos Tziolis (Weinhandlung Cava, Berlin), der die meisten Spitzenreizeure Griechenlands im Sortiment hat.

In den nördlichen Regionen sind die Weine nicht zu alkoholreich und haben eine gute Säurestruktur, vor allem die weißen Sorten Roditis, Chardonnay und Sauvignon Blanc. Bei den roten Sorten dürfte es nach Einschätzung des Hauses Boutari „eines der besten Jahre für Xynomavro“ sein (die Rebe für die Qualitätsweingebiete Naoussa, Goumenissa und Amynteo). Bei Tsantali schwärmt man vor allem von Merlot und Cabernet Sauvignon aus Chalkidiki, deren Trauben gesund und vollreif geerntet wurden. Auf der Monchsabbtei Athos war schon vor heftigen Regenfällen Ende September

alles im Keller. Neben guten Roten sind interessante Weißweine von Athiri, Assyrtiko und Chardonnay zu erwarten. Zeit lassen musste man sich in der populär gewordenen, südlicheren Appellation Rapsani in Thessalien, wo erst Anfang Oktober gelesen wurde. Die Menge war gering (40 hl/ha), der Zuckergehalt dagegen stattlich.

Auf dem Peloponnes regnete es zwar im Herbst, doch da hatten die meisten Erzeuger in der wichtigen Rotwein-Region Nemea bereits ihren Most mit gutem Alkoholgehalt und viel Aroma am Gären. Im hoch gelegenen Gebiet Mantinia wurde Mitte Oktober zum Endsput geblasen, bei mittlerem Zuckergehalt, aber einem gesunden Zustand der Weißwein-Beeren. Auf Kreta war das Ergebnis laut Boutari „hoch in der Qualität“. Die Rotweine lassen eine sehr gute Erbung und viel Körper erkennen, die weiße Vilana-Traube punktet mit feinem Aroma. Ähnlich erfreulich war die Ernte auf Santorini, wo Spitzenwinzer Paris Sigalas einen erstklassigen Assyrtiko erwartet.

Mazedonien

Hohe Temperaturen in der Reifeperiode im Sommer bei gemäßigter Feuchtigkeit in den 30.000 ha Reben deuten auf einen guten Jahrgang in Mazedonien hin. Das Land im Osten von Ex-Jugoslawien mit der Hauptstadt Skopje, das auch reichlich Tafeltrauben erntet, dürfte rund 1 Mio. hl Wein vom 2005er im Keller haben. Langfristig will man in Mazedonien versuchen, die Billig-Tankexporte nach Deutschland, dem mit Abstand wichtigsten Abnehmerland, zu verlagern. 2004 waren es knapp 170.000 hl. Damit liegt man zwar in der Importstatistik auf dem schein-

bar stolzen sechsten Rang. Doch der Durchschnittserlös von lediglich 42 Euro/ha stimmt allenfalls die Einkäufer von Großbetrieben wie Binderer und Rheinberg-Kellerei (Tideka) fröhlich. Lediglich die Tschechische Republik und Zypern liegen mit ihrem Schnitt noch darunter, erzielen aber nicht annähernd die mazedonische Menge. Viele Kellereien werden durch den Preisdruck an den Rand der Wirtschaftlichkeit gedrückt.

Im Gegensatz zu Ungarn, Rumänien und Bulgarien fließen bislang keine ausländischen Gelder in die Weinwirtschaft. Zwar ist der Privatisierungsprozess fortgeschritten. Aber ansonsten ist das Land auf sich selbst angewiesen. Zumindest konnte man im letzten Jahr durch Vermittlung einer amerikanischen Agentur einige Flying Winemaker aus Kalifornien und Australien in Anspruch nehmen. Neu ist die Gründung der Macedonian Fine Export Group durch die Kellereien Pivka, Bovin, Skopin, Cekorov, Ponko und Popov, die eine gemeinsame Marketing- und Vertriebsstrategie für den Export entwickeln wollen.

Kalifornien

Das Department of Agriculture (USDA) geht von einer überdurchschnittlich hohen Erntemenge in den USA aus. Die Schätzung beläuft sich auf rund 6,12 Mio. t Trauben, USA-weit bedeutet dies ein Plus von 9% gegenüber dem Vorjahr. Im wichtigsten Anbaubereich Kalifornien (etwa 89% der US-Erntemenge) belaufen sich die Schätzungen auf ein Mengenplus von 8%. Die Ernte hat aber zwei bis drei Wochen später als sonst begonnen. Michael Carus vom Importeur Tophi in Hamburg kann daher noch keine Bewegung auf dem Fassweinmarkt erkennen. Selbst wenn 2005 ein großer Jahrgang werden sollte, werde dies wohl kaum zu sinkenden Preisen führen. Die kalifornischen Keller seien aufgrund der relativ kleinen Ernte 2004 bereits im März/April weitgehend leergelegt gewesen. Auch Michael Wilkomm, Chef der Weinkellerei Mertes, geht angesichts der positiven Binnenfrage und steigenden Exportzahlen eher von steigenden Preisen aus.

Jon Bertrams, Gabriele Graumitz,
Ralf Essl, Jürgen Mückel

WEIN+MARKT 11/2005

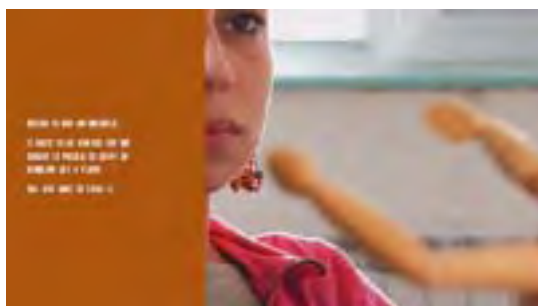
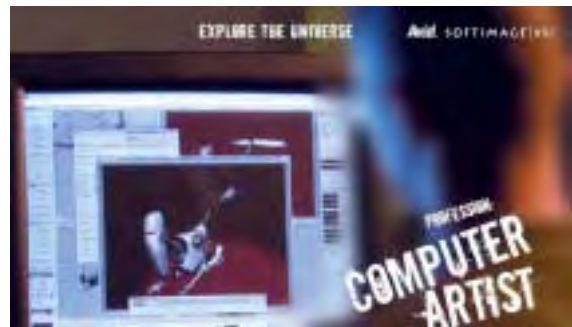
Macedonia

High temperatures during the ripening period in summer and sufficient moisture for some 30,000 ha of land are indicators of a solid production year in Macedonia. Situated in the eastern part of former Yugoslavia with Skopje as the capital, where grapes are also produced, this country should have about 1 million hl of 2005 wine in the wineries. On a long-term basis, Macedonia would like to lower the amounts of cheap bulk exports of wine to Germany, which is now by far the most important buyer. In 2004, almost 370,000 hl were exported there. Having this in mind, the country is ranked No. 6 on the list of most important wine exporting countries in Germany. However, the average price of only EUR 42.00 / hl makes only those who buy the wine happy, such as the big wine cellars in Germany among which is the Rhine-Berg Cellar (Edeka). Only the Czech Republic and Cyprus have a lower average price and are not even close to the amounts of wine imported from Macedonia. Many wine cellars are on the edge of viability faced with high price pressure on the market.

So far there haven't been any foreign investments in the Macedonian wine industry, unlike countries such as Hungary, Romania and Bulgaria. Although the privatization processes are almost finished, the country still depends on its own capital. At least last year the country was able to get technical assistance from the US Agency for International Development, thus providing couple of flying wine-makers from California and Australia. Additionally, the Macedonian Fine Export Group was established by the wine producers Pivka, Bovin, Skovin, Cekorov, Fonko and Popov, intending to develop a joint marketing and distribution export strategy.

APPENDIX D



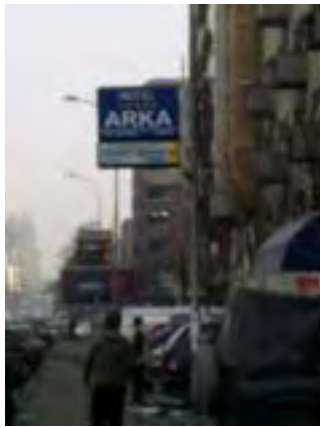


APPENDIX E

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APPENDIX F



APPENDIX G



PARIS FASHION WEEK
presentations 5-20 October 2005



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